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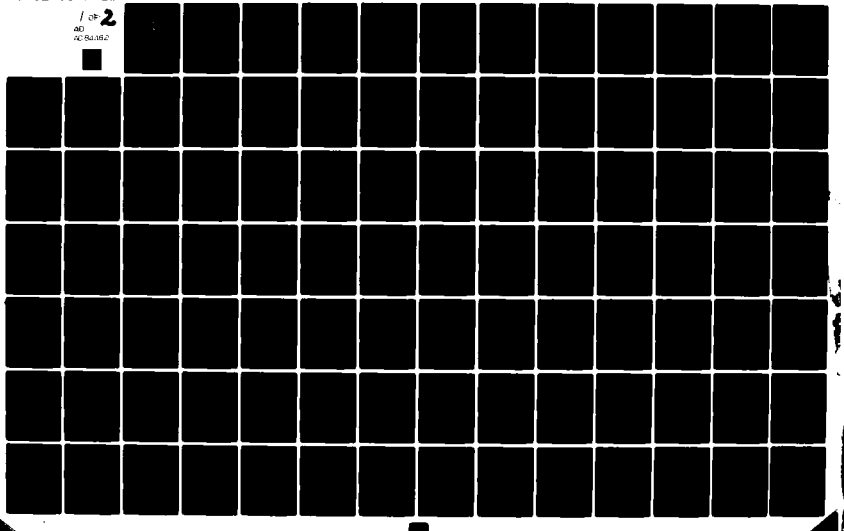

# NAVAL POSTGRADUATE SCHOOL
## Monterey, California




# THESIS

U.S. Navy Foreign Military Sales Program:
Reduction of Expenditures in Float

by

Dale John Zehner

December 1979

Thesis Advisor: E. A. Fincke

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# Navy's Foreign Military Sales Program: Reduction of Expenditures in Float

by

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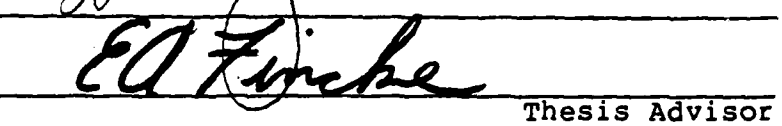
Approved by: 
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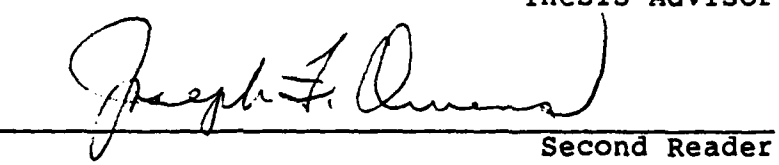
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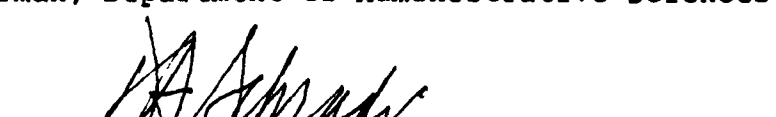
Dean of Information and Policy Sciences

## ABSTRACT

The rapid expansion of the U. S. Navy Foreign Military Sales (FMS) program in the past few years has posed a number of accounting and financial management problems for the Navy. With the creation of the Security Assistance Accounting Center (SAAC) in 1976 and the centralization of all billing, collecting, and accounting for FMS monies, the reconciliation of FMS disbursement data reported by the Navy to the U. S. Treasury with the amount posted to the Navy and SAAC detailed case accounting records has become extremely difficult. The thesis addresses the difference or "float" between the two sets of records and examines the reasons and causes for it. To decrease the overall float, recommendations are made for the Navy to revise the method of processing detailed expenditures so as to minimize processing delays and reduce errors on expenditure documents.

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# I. INTRODUCTION

## A. OVERVIEW

The growth in foreign military sales (FMS) in the past several years has been astonishing. Although the FMS program has been in existence for over twenty-five years, approximately half the total dollar volume of all FMS business has occurred in the past two fiscal years.[1]

As of March 1979 the Security Assistance Accounting Center (SAAC) reported that the United States had 16,400 active sales agreements with 88 foreign countries totalling $70.7 billion.[2] In fiscal year 1978 negotiated FMS sales agreements totaled $13.5 billion. Total new sales agreements for fiscal year 1979 and 1980 are estimated to be approximately $13.9 and $14.0 billion respectively.[3] The pervasive impact of this growth on the military services who are responsible for the acquisition, delivery, accounting, and billing of the FMS program has been tremendous.

The General Accounting Office (GAO) and defense and Navy audit agencies have issued numerous reports on the quality of the management of the FMS program. Generally speaking the reports have been critical with the major area of criticism being the Department of Defenses's (DOD) inadequate financial accounting for FMS.[4] In a 1979 report GAO identified $1.1 billion in accounting inconsistencies and errors related to fiscal year 1977 sales. In a Business Week article it

was alleged that the Department of Defense had "lost accounting control of $30 billion within the FMS program."[5] It stated that the DOD accounting system was so unkempt, disorganized, and inadequate it was not able to determine whether those unaccounted-for FMS monies were the result of accounting errors, using the funds for something other than FMS, or the undercharging of foreign customers -- or a combination of all three. A high-ranking defense official speculated that it would be at least five years before the accounting problems would be straightened out.[6]

## B. STATEMENT OF PROBLEM

The Navy's problems in accounting for FMS were disclosed when the U.S. Navy International Logistics Control Office (NAVILCO) transferred official detailed sales case accounting records to the Security Assistance Accounting Center (SAAC). The center was established in the fall of 1976 as the FMS executive for the DOD singularly responsible for billing, collecting, and accounting for all monies due under the FMS program. Prior to 1976 each of the military services performed the above functions individually. At the time of the transfer the balance in the Navy's FMS trust fund account, maintained by the Treasury Department, did not agree with the Navy's detailed FMS case accounting records. After the transfer the Navy spent several thousand staff days during fiscal years 1977 and 1978 trying to determine why the Navy's FMS trust fund and the Navy's detailed records which were

transferred to SAAC did not agree and make the necessary adjustments.[7] On 15 November 1978 the General Accounting Office (GAO) reported that the Department of Defense (DOD) did not know the correct balance of cash being held in trust for countries involved in the Navy's FMS program. It stated that cash balances on SAAC's sales case accounting records (received from the Navy) as of 1 June 1978 were $554 million more than cash balances on Treasury records which the Navy had reported expenditures against. In addition the two sets of accounting records could not be reconciled.[8]

It appeared that despite the Navy's efforts to reconcile the differences the problem had not been resolved. In fact by December 1978 the difference had grown to $581 million. The cash balances are still unreconciled, but the Navy is continuing to attack the problem.

## C. OBJECTIVES OF RESEARCH

The principal objective of the research was to analyze why the large unreconciled difference existed between the FMS disbursement data reported by the Navy to the Treasury and the amount posted to the SAAC's detailed sales case accounting records. The secondary objective was to propose methods for the Navy to reconcile the differences between the two sets of records within the near future.

## D. RESEARCH METHODOLOGY

Data for the thesis was gained from personal interviews with personnel from Naval Supply Systems Command

(NAVSUPSYSCOM), Navy International Logistics Control Office (NAVILCO), and Security Assistance Accounting Center (SAAC); review of internal memoranda, point papers, and applicable instructions; review of audit reports concerning NAVILCO and SAAC; and research reports and theses written on FMS especially in the areas of financial management and accounting.

## E. SCOPE OF RESEARCH

The thesis does not address the political question of whether the United States should or should not be an exporter of miliary equipment and services. Neither are the benefits or costs of FMS and their effect upon the military services and the U.S. economy discussed. It is assumed that FMS will continue to be a major element of United States foreign policy and the financial control, management, and accounting for FMS by the military services will take on increased importance in the future.

Primarily, the research was directed toward reviewing the Navy's accounting system as it applied to the recording of expenditures to the Treasury and the SAAC. Organizational philosophies, structures, and procedures are not discussed except where there was an effect on the accounting methods used by the two organizations in relationship to the objective of the research. NAVILCO and SAAC were considered in the analysis since their perspectives had a strong impact on the approaches made toward problem definition and resolution.

## F. DEFINITIONS

A number of terms used through out the research are distinct to FMS accounting. For the convenience of the reader the terms are defined below:

1. FMS case. A contractual sales agreement between the U.S. and a foreign country which stipulates particular material or services to be supplied to the foreign country, the estimated cost, and the terms and conditions of the sale. The number of FMS cases for any foreign country will depend on the number of separate unique material or service purchases that the country has negotiated with the U. S. Accounting for FMS is performed on a case level basis, i.e., all costs are accounted or charged to unique FMS cases.

2. SAAC. Acronym for Security Assistance Accounting Center. Located in Denver, it is the excutive agent for DOD responsible for the centralized billing, collecting, and accounting for all monies due under the DOD FMS program. It has fiduciary control of all FMS monies on deposit with the Treasury.

3. NAVILCO. Acronym for Navy International Logistics Control Office. It is the organization within the Navy responsible for centralized detailed financial accounting records for all Navy FMS cases. It maintains ledgers and prepares transaction reports to SAAC to effect customer billings for costs incurred for particular FMS cases.

4. Float. Term used to describe the money value difference between summary level expenditures reported to the

Treasury and the amount posted to detailed case expenditure accounting records at NAVILCO and SAAC at any point in time. The assumption is made that detailed case accounting records at NAVILCO and SAAC are always the same, since any expenditures recorded at NAVILCO are immediately reported to SAAC.

5. Unidentified float. That portion of the total float that cannot be identified or traced to existing documentation or delays in reporting between organizations. It represents expenditure differences between summary records in the Treasury trust fund and detailed records at NAVILCO/SAAC that cannot be accounted for by float.

G. OUTLINE

The reader should have a basic knowlege of the development of FMS, especially the restrictions and requirements legislated by public law, since it has determined the overall policy and approach in which the FMS progam has developed. Accordingly, a brief history is outlined and discussed in Chapter II.

Chapter III continues the overview and examines the relationship of NAVILCO to SAAC in the DOD hierarchy and examines each of their basic mission responsibilities and tasks. Specific requirements of billing foreign customers, transfer of obligation and expenditure authority, and methods of financing FMS cases are discussed.

Chapter IV provides a general overview of the methods used to reconcile Navy detailed expenditure records with

summary level expenditures reported to the Treasury. Both the identified and unidentified float are defined and the relationship between the two addressed. In addition, the unreconciled balance between the two sets of records as of 31 December 1978 is identified and segregated into subcategories for further analysis.

Chapter V examines the unreconciled difference between the Treasury trust fund account and the Navy and SAAC's detailed sales case records for the period December 1978 to August 1979. The elements that make up the difference as well as the reasons for the differences are discussed from the perspective of the Navy. Current solutions that have been attempted by the Navy are examined and the effects they have had on reducing the unreconciled difference are analyzed.

Chapter VI reviews the current status of the unreconciled difference and recommendations are made for further improvements. The complete resolution of the problem within the short term is questioned. It is speculated that unless current system problems are resolved or improved the difference between the Treausry trust fund and detailed sales records maintained by SAAC and NAVILCO will never reconcile and the difference between them will continue to be excessive.

In summary, the research basically examines the Navy's responsibilities for reporting expenditures to SAAC and the Treasury under the DOD's current methods of FMS accounting.

The critical problem of the imbalance between SAAC's detailed FMS case accounting records and the Treasury trust fund is specifically addressed in the thesis.

## II. BACKGROUND OF FMS

> Most of the world's almost 150 nations have no arms industry. Their equipment and related services must be acquired from the more industrialized nations on a grant, credit, or cash basis.[9]

### A. GROWTH OF FMS

The policy of the United States since World War II has been to provide military assistance to friendly foreign countries. This policy has remained constant since that time. In the 1950's, the assistance consisted mainly of surplus military equipment, transferred through grants-in-aid or loans. The assistance was designed to support these friendly foreign countries in establishing and maintaining adequate defense postures which were consistent with their economic stability and growth and to help them maintain internal security and resist external aggression. The basic philosophy behind this assistance was that the economic well-being and the opportunity for peaceful development of friendly foreign countries was essential to the security of the United States. This principle was inherent in the *Truman Doctrine, the Marshall Plan and the Nixon Doctrine.*[10]

The Mutual Security Act of 1951 formalized the foreign aid procedures under which grant aid was made. Toward the end of the 1950's, the United States' military surpluses of World Was II were depleted. This factor, along with a

balance of payment trend that was unfavorable, led to the enactment of the Foreign Assistance Act (FAA) of 1961. Although this Act allowed grant-aid, it also formalized procedures for providing non-excess material to allied countries through cash sales.[11]

The continuing unfavorable trend in the balance of payments and the increased capability of allied nations to support their own military posture resulted in rapid increase in the purchase of military equipment on a cash basis.[12] While such sales had taken place for many years along with grant aid, they were of comparatively small scale until the late 1960's when they began to increase rapidly as shown in Table I and Figure 1.

Since the inception of the Foreign Military Sales program in 1949 and through the period of 1965, the U.S. government provided $31.5 billion to friendly foreign governments through the grant-aid Military Assistance Program (MAP) and sold $8.5 billion in material and services. During the 1961 to 1968 time-frame, sales to nations of Western Europe were increased with the result that, while MAP (excluding funds to Southeast Asia) decreased from $1.6 billion in 1962 to $596 million in 1968, foreign military sales increased from an average of $1.5 million to $1.5 billion over the same period. From 1972 through today there has been a sharp increase in the magnitude of the FMS program (see Table I) and a change in the customer countries from Europe to Middle Eastern nations.[13]

TABLE I

STATISTICS ON ARMS TRANSFER
(Dollars in Millions)

| FY | Grant Aid[a] | FMS orders | FMS as a % of Grant Aid |
|---|---|---|---|
| 1950-1965 | $31,478 | $8,514 | 27 |
| 1966 | 972 | 979 | 101 |
| 1967 | 876 | 799 | 91 |
| 1968 | 596 | 1,551 | 260 |
| 1969 | 453 | 1,184 | 261 |
| 1970 | 382 | 1,156 | 303 |
| 1971 | 755 | 1,389 | 184 |
| 1972 | 546 | 3.066 | 562 |
| 1973 | 590 | 4,480 | 759 |
| 1974 | 785 | 10,741 | 1368 |
| 1975 | 584 | 13,938 | 2387 |
| 1976[b] | 269 | 13,233 | 4919 |
| 1977 | 251 | 11,342 | 4519 |
| 1978 | 221 | 13,534 | 6124 |
| 1979(est) | 210 | 13,962 | 6649 |
| 1980(est) | 144 | 14,000 | 9722 |
| Total | $39,112 | $113,868 | |

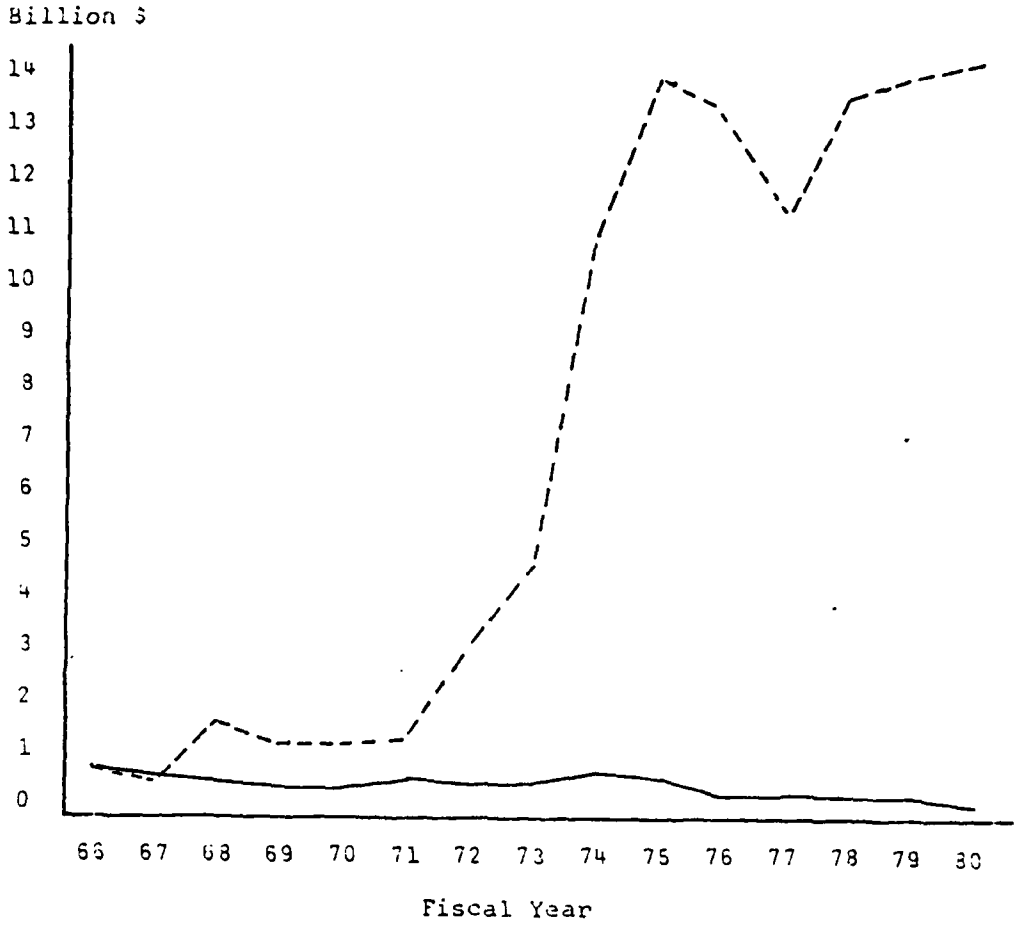
a. excludes grant aid funds provided in Southeast Asia area during FY 1966 - FY 1975 under the Military Assistance Service Fund (MASF) programs.

b. includes transitional quarter (FY 197T)

Source: DSAA FMS and Military Assistance Facts

FIGURE 1

TRENDS IN FMS AND GRANT AID FY 1966-78




Source: DSAA FMS and Military Assistance Facts

B. INCREASED ACCOUNTING REQUIREMENTS

Because of this large volume of military sales, a need developed for more consistent procedures to be used for the cash transactions. This led to the Foreign Military Sales Act of 1968 which established policy and procedures presently employed in the FMS program.[14]

Current FMS policy and guidelines are detailed in the Arms Export Control Act of 1976 wich became law on 30 June 1976. This Act was the result of amending the Foreign Assistance Act of 1961 and the Foreign Military Sales Act of 1968. Congress also renamed the FMS Act, calling it the Arms Export Control Act. Congress stated its basic policy with the following statement included in the amending legislation:

> It shall be the policy of the United States to exert leadership in the world community to bring about arrangements for reducing the international trade and and implements of war and to lessen the danger of outbreak of regional conflict and the burdens of armament. In United States' programs for or procedures governing the export, sale, and grant of defense services to foreign countries or international organizations shall be in a manner which will carry out this policy.

Essentially, the major change caused by the 1976 law was to increase congressional control of the FMS program through reporting constraints written into the legislation. The actual procedures and policies for FMS accounting had been established in the previous legislation and continued in the Arms Export Control Act.

The tremendous growth in FMS, placed a heavy burden on the U.S. Navy, first on its acquisition system through increased procurement of defense material for foreign countries

and, second, through the complex requirements for accounting and costing of FMS. The requirement for detailed obligation, expenditure, and cost accounting systems became necessary in order to bill and collect from foreign countries for the FMS Program. It is this requirement that was difficult for the U.S. Navy to meet.

The rapid increase in the volume of the FMS program has compounded the accounting problem and highlighted the difficulties the U.S. Navy had in meeting the legislative requirements for the FMS program.

## III. ACCOUNTING FOR FMS

> In May 1978 the Defense Steering Committee for Prioritization of Foreign Military Sales Financial Management Implementation designated the problem in reconciling the Navy's trust fund account balances as the top priority issue facing Defense in improving its financial management of the foreign sales program.[15]

### A. INTRODUCTION

This chapter provides a general description of the requirements and procedures that must be followed in accounting for FMS. The organization within the Navy that performs the accounting function for FMS is the Navy International Logistics Control Office (NAVILCO). It is responsible for performing the detailed financial accounting for all Navy FMS programs. NAVILCO interfaces closely with the Security Assistance Accounting Center (SAAC) which is responsible for the DOD-wide management of the FMS trust fund and the billing and collecting of monies from the foreign customers. The responsibilities of each of the organizations is discussed along with the flow of funds and information between the two organizations.

### B. REQUIREMENTS

The Arms Export Control Act provides a legal basis for DOD FMS accounting policies and procedures. The policies and procedures are further defined and expressed in DOD

Instruction 2140.3 and the Military Assistance and Sales Manual (MASM). The following specific requirements are considered to be the most important aspect concerning FMS accounting.

1. No profit/no loss to the U.S. government

The U.S. government in procuring and furnishing the materiel to a foreign government does so on a non-profit basis for the benefit of the foreign customer. The foreign customer agrees to pay the U.S. government the total cost incurred regardless of the sales terms negotiated at the time of the acceptance of the offer. The U.S. government is obligated only to notify the foreign government if the expected cost of the FMS is to increase beyond ten percent of the original estimate.

The term "Foreign Military Sales Case" describes a contractual sales agreement between the United States and an eligible foreign government. The FMS case is documented by the U.S. Department of Defense Form 1513, Letter of Offer and Acceptance. The DD Form 1513 is a formal document by which the U. S. government offers to sell a foreign government specified defense articles and services. It stipulates the items and/or services, estimated costs, the terms and conditions of the sale, and provides for the foreign government's signature to certify acceptance. The Navy assigns a separate case designator for the purpose of identification, accounting, and data processing documentation for each accepted offer.

2. Advance collection of FMS costs

The purchaser, unless the DD Form 1513 specifies otherwise, must agree to the U.S. government policy of collecting the foreign country's funds in advance of the time that DOD plans deliveries/expenditures or plans to make progress-type payments to contractors on the foreign country's behalf. The DD form 1513 financial annex specifies the downpayment required prior to any obligations on the part of the U.S. government, and establishes the required payment schedule. The Arms Export and Control Act further states that the total funds on deposit should be sufficient to meet the payments required by the contract and any damages and costs that may occur from the cancellation of such contract in advance of the time such payments, damages, or costs are due. Funds are kept on deposit with the U.S. Treasury.

3. Collection of interest on delinquent accounts

The foreign country must agree to pay interest on any net amount which it is in arrears on payments which is determined by considering all the foreign country's open DD Form 1513s within the DOD.

4. Standardized billing procedures

It is DOD policy that the form, content, cycle, basis and adjustment of the FMS billing transmitted to foreign countries be standardized.

## C. CREATION OF THE SAAC

Prior to October 1976, each of the military services acted independently in the conduct of its FMS program. Each service was responsible for procuring, accounting, disbursing, billing, and collecting funds for FMS cases from foreign customers. With the sharp increase in the total FMS program since 1974, the DOD's financial management system was not capable or designed to handle the phenomenal growth. Because of the time pressures and rapid expansion of the FMS program, DOD had to add Foreign Military Sales accounting requirements to the existing financial management systems, instead of designing and implementing separate financial systems for FMS.

A number of GAO reports criticized DOD for subsidizing the FMS program with U.S. monies since the cost for the FMS program could not be readily identified. This was due to the inability of the DOD financial systems to collect pertinent costs such as administrative, transportation, packaging and handling, military and civilian salaries plus fringe benefits, and R&D costs, applicable to a unique FMS case.

Additionally, foreign governments began to complain about the numerous bills being received from each of the military services and questioned why they could not receive single billings.

In an attempt to correct some of the many criticisms being leveled, DOD began to centralize the management of the FMS program. One of the significant measures taken was the creation of the central billing and collection agency -- the

Security Assistance Accounting Center (SAAC).

The SAAC was established in 1976 by the Secretary of Defense as the central DOD activity for carrying out certain responsibilities under the Arms Export Control Act. As the executive for DOD under the Defense Security Assistance Agency (DSAA), it was singularly responsible for billing, collecting, and accounting for all monies due under the Foreign Military Sales program with 88 foreign countries. The SAAC simultaneously served as the central point of contact within DOD for FMS-related inquiries, and as a focal point for DOD-wide procedural and operational FMS financial systems.

Within these responsibilities SAAC also had the fiduciary control of FMS monies on deposit with the Treasury in the FMS trust fund and was responsible for the primary data base for reporting FMS program status and performance to the President and other executive departments in Congress. The SAAC was created at the Air Force Accounting and Finance Center (AFAFC) in Denver and placed under the direction of the director of AFAFC who was also appointed as the Assistant Director, DSAA. The first centralized billing was achieved on 6 May 1977 when the SAAC released the first billing statement to all FMS customers. The billing was 666,400 pages long and requested customer payments of $2.1 billion.[16]

The computer programs used for the FMS billings were the programs used previously by the Air Force and were reconfigured to accept input data from the Army and the Navy. At

the time the centralization of the billing took place it was felt that the Air Force had the best system for billing, and the reconfiguration of that system prevented the necessity to develop a new billing system.

D. FMS TRUST FUND ACCOUNTING

The FMS trust fund is a fund managed by the Treasury in which FMS monies from foreign countries are held in trust or in a fiduciary capacity by the U.S. government for use in making specific purchases detailed in the DD 1513. The SAAC has accounting responsibility for the trust fund even though the funds are on deposit with the Treasury. The FMS trust fund represents the aggregate cash received from all foreign countries and held by the Treasury for FMS purchases.

Trust fund accounting has two distinctive sides; the receipt of payments into the fund and disbursements from the fund for payment of purchases and stock issues made by the U.S. government on behalf of a foreign country. All receipts and disbursements are accounted for at the country level regardless of what case the receipts or disbursements are made for. Individual case accounting records reflecting expenditures by case are maintained by NAVILCO and SAAC.

There are four basic principles associated with the Trust Fund management:

1. One foreign country's trust fund balance cannot be used to finance another foreign country's programs.

2. Cash disbursements will be controlled on a

country basis, although accounting for FMS transactions are made on an FMS case level basis.

3. Country cash deposits maintained in the trust fund account can be used for any of the country's cases, but the accounting status of the individual cases will be maintained by SAAC and NAVILCO.

4. Dollars received into the FMS trust fund increase the overall volume of funds within the United States Treasury. The dollars become part of the overall United States Treasury Accounting System and therefore are under U. S. Government control from the date of receipt. SAAC as the accountable agency renders certain reports to the U.S. Treasury concerning the balances of individual country accounts.

## E. FINANCIAL CONTROL BY THE SAAC

On 17 June 1977, the Assistant Secretary of Defense (ASD) (Comptroller) issued a memorandum which addressed "improved financial control for military sales".[17] Within the memorandum, the ASD(C) described the accounting and financial procedures for FMS transactions in the FMS trust fund and in the performing appropriations when FMS orders were executed on the reimburseable basis. The major objectives of the new proposed system were as follows:

1. To provide an integrated accounting and financial controls system that will cover each FMS case from start to finish, insuring full compliance with the Arms Export Control

Act.

2. To insure compliance with all requirements for administrative control of funds.

3. To insure that trust fund and performing appropriations, accounting, reporting and budget schedules were properly interfaced.

4. To facilitate budgeting, financial planning and cost estimating for FMS transactions.

In the memorandum two forms were prescribed and required to be used in the accounting for FMS funds. These forms were:

1. DD Form 2060 (FMS Obligational Authority)

This form is used by the military service to request FMS case obligational authority from SAAC.

2. DD Form 2061 (FMS planning document)

This form is to be prepared reflecting detailed pricing elements, planned financing appropriations, obligational authority received and required at a date specified, obligational authority required for the current year, and an estimate of the obligational authority required for the budget year.

The memorandum made it a requirement that a DD Form 2060 and 2061 be prepared for each new FMS case at the time the DD Form 1513 is prepared and prior to its acceptance by the foreign country. In addition, a copy of each 2060 was to be submitted to SAAC prior to the issuance of any obligational authority.

Further, DD Form 2060 is required to be submitted before the beginning of each fiscal year reflecting the funding status through 30 September for all active FMS cases and identify the amount required for obligation for the current year.

Prior to the implementation of the above forms the DD Form 1513 constituted the request for obligational authority. Because the DD Form 1513 usually reflected the full value of the case, military services were obtaining obligational authority for the total case value even though many of the large value cases would take up to five to six years for procurement and delivery. This prevented SAAC from knowing exactly how much obligational authority was available at any specific time . Thus, SAAC could not insure countries' cash balances in the trust fund were sufficient to meet all expenditures that could be incurred against the obligational authority available.

With the submission of DD Form 2060 each year, the SAAC has tighter control over obligational authority and ultmately expenditure authority than it did. Obligational authority is now controlled on a yearly basis. Military services must request obligational authority for the current year and estimate the amount that will be needed in the budget year. With this information, the SAAC is able to forecast expenditures more reliably, assuming expenditures will approximate obligational authority approved for the year. This enables the SAAC to ensure country balances in the trust fund are suffi-

cient to cover all costs to be incurred in the near term and meet any contingent liabilities as required by the Arms Export Control Act.

## F. FINANCIAL ADMINISTRATION

### 1. Control of FMS monies

The SAAC can control FMS monies through two processes; the issuance of obligational authority and the issuance of expenditure authority. The two processes are exclusive of each other.

Obligational authority is requested by a military service from the SAAC for a particular FMS case. If approved, obligations are allowed to be incurred on a given FMS case in an amount not to exceed the value of the obligational authority granted. Expenditure authority is not granted with obligational authority but is granted separately.

Expenditure authority is granted by the SAAC to a military service which allows expenditures to be made against a country's trust fund account. Unlike obligational authority, expenditure authority is maintained at the country level and not at the case level. In the case of the Navy, expenditure authority is granted by country to NAVILCO. Before an expenditure can be made against a Navy FMS country, the paying office must obtain authority from NAVILCO.

The issuance of obligational and expenditure authority are mutually exclusive of each other. It is possible to have obligational authority which is far greater than the

expenditure authority granted by country. This is because, under certain procurement contracts, it is necessary to issue total obligational authority allowed on the contract. Expenditure authority in this situation is only required to make the progress payments negotiated at the time of the contract.

2. Methods of Financing

There are two methods in which funds can be expended against the FMS trust fund. These are by direct citation and the reimbursable method. These are depicted in Figure 2.

a. Direct Citation Method

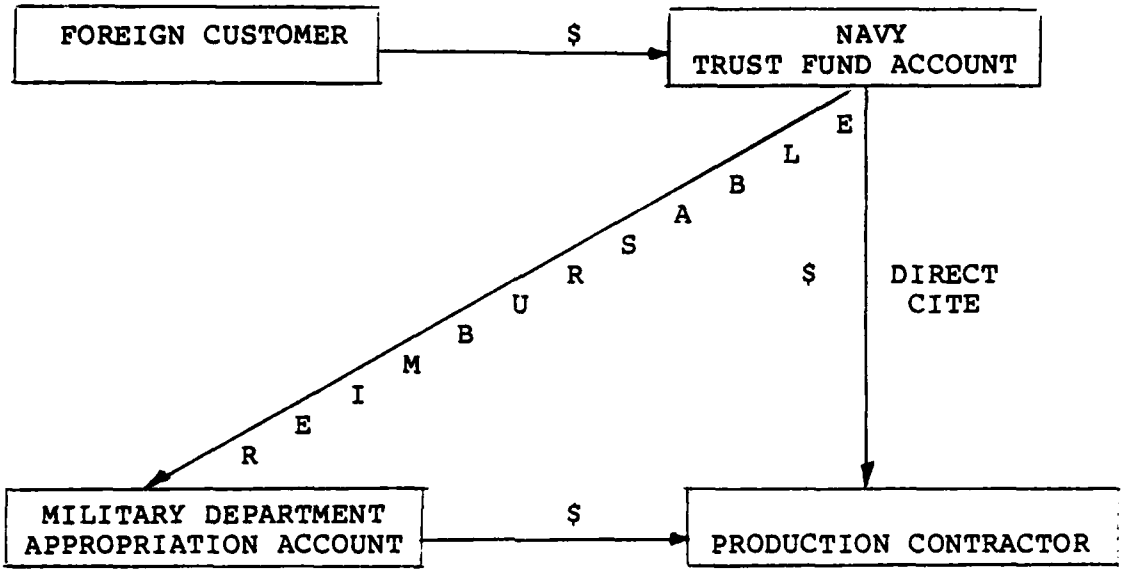
Direct Citation is a method of funding whereby the FMS trust fund is cited directly on procurement documents, and expenditures are made directly from the trust fund account by military disbursing offices.

b. Reimbursable Method

Under this method expenditures for FMS cases are made against U.S. apropriations (after receiving obligational authority from SAAC) which are later reimbursed from the FMS trust fund when expenditures for the material are reported to SAAC. The actual reporting of the expenditures to the detailed accounting records at NAVILCO and SAAC occurs just prior to the reimbursement of the U.S. appropriation. Because of this, the reimbursable method allows little float to exist between the country's trust fund account and the detailed case accounting records.

FIGURE 2

METHODS OF FINANCING




Source: How to Conduct Foreign Military Sales

DOD Instruction 2140.1 requires that new procurement actions be funded to the maximum extent possible through direct citation of the FMS Trust Fund as opposed to using the reimbursable method. The reason for this is to prevent, as much as possible, subsidy of FMS procurements with U. S. appropriations. When the reimbursable method is used there is always a possibility that U. S. appropriations will not be reimbursed for the full cost of the FMS case procured under it. In fact, the GAO has issued numerous reports revealing where the DOD has subsidized FMS through U. S. appropriations.

G. FLOW OF FUNDS FOR FMS

Figure 3 represents the flow of funds for FMS. The funds flow process starts with payment requirements placed upon the foreign government. These demands are in two forms:

1. The initial deposit required to be deposited which is stipulated in the DD Form 1513 financial annex, and

2. The recurring payments requirements which are contained in the Quarterly Billing Statements (DD Form 645) from the SAAC.

Cash received from the foreign countries is deposited into the trust fund account by SAAC. The SAAC controls the administration of the funds from the trust fund through the issuance of obligational and expenditure authority.

H. TRANSFER OF OBLIGATIONAL AUTHORITY

The transfer of obligational authority between SAAC and NAVILCO occurs after the following events take place:

1. Receipt of a copy of the signed DD Form 1513 by SAAC.

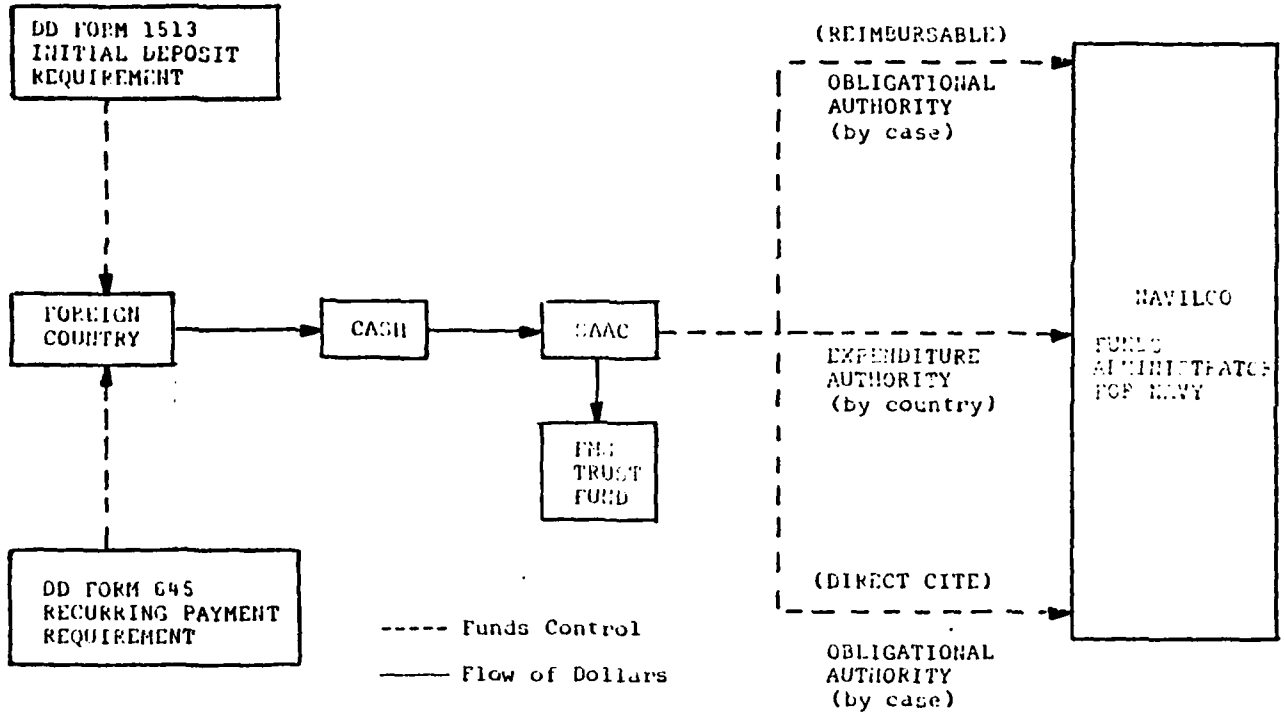
2. Receipt of the initial deposit by SAAC from the foreign government.

3. Approval by SAAC of the DD Form 2060 submitted by the Navy to SAAC requesting obligational authority for the particular FMS case.

The term obligational authority is used loosely since SAAC is transferring or granting permission to the Navy to incur legal reservations of funds which will eventually be expended against the FMS trust fund account for the foreign

FIGURE 3

FLOW OF FUNDS FOR FMS




Prepared by Author

country. The monies involved are funds of the foreign country and are not U. S. monies. It is questionable, therefore, if the FMS trust fund is or is not subject to the provisions of Section 3679(a) of the Revised Statutes. In any case, obligational authority is transferred to NAVILCO through NAVCOMPT for funding of a unique FMS case.

Once received by NAVILCO, obligational authority is transferred to Case Administering Offices (CAO) for actual acquisition of the required material or services. For material requiring major procurement action the CAO is within one of the system commands under the control of Navy Material Command (NAVMAT). For material held within the Defense or one of the military services stock funds, NAVILCO acts as the CAO. Figure 5 depicts the transfer of authority between NAVILCO and CAOs along with the flow of other information.

NAVILCO as administrator of the Navy's FMS obligational authority is responsible for all detailed case accounting and reporting of expenditures to SAAC on a case level basis by line item (National Stock Number (NSN), part number, or service provided) within 30 days of the expenditure or delivery of the material. Since about 95 per cent of the Navy FMS cases use the direct citation method of financing, the Navy paying activities directly cite the trust fund account on nearly all payments.[18]

## I. EXPENDITURE REPORTING TO THE SAAC

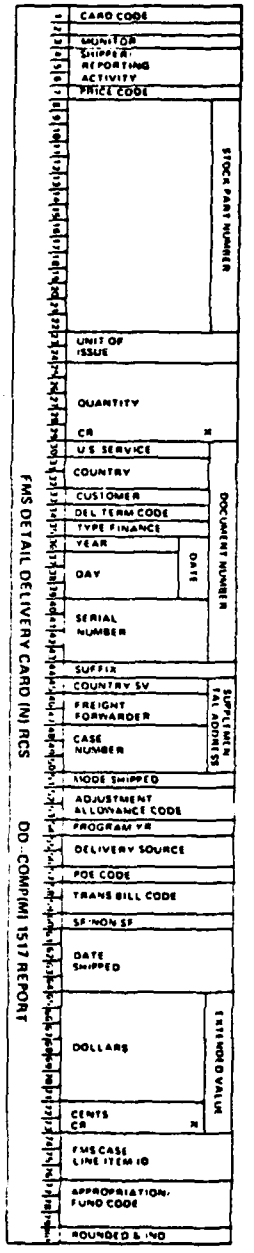
Expenditures are reported monthly/daily to NAVILCO by paying offices. For material issued from defense stocks, expenditures are reported to NAVILCO on interdepartmental billings (IDB). The number of transactions average between 17,000 and 20,000 per month and total between $5 to 6 million. For material obtained through procurement, detailed expenditure information is received from NRFC's on Y1 and Y2 expenditure documents (format of documents enclosed in Appendix C) with copies of the corresponding invoice and public voucher for each transaction. The number of transactions average between 6,000 and 12,000 per month and total between $50 and 80 million.[19]

The reporting of expenditures, progress payments, and delivery information by the Navy to SAAC is accomplished with the DD COMP(M) 1517 Report. The report is made on magnetic tape or punched card in an 80 card column format. The basic information contained on the DD 1517 is shown in Figure 4. Reports are made monthly to SAAC and each DD 1517 represents the expenditure or delivery of a unique line item for a specific Navy FMS case.

## J. BILLINGS TO FOREIGN COUNTRIES

Information submitted by the Navy via the DD 1517 is used by SAAC to produce the Statement of Foreign Military Sales Transactions, DD Form 645. The DD Form 645 serves both as a billing document and as a statement of the foreign

FIGURE 4
FORMAT OF DD COMP(M) 1517



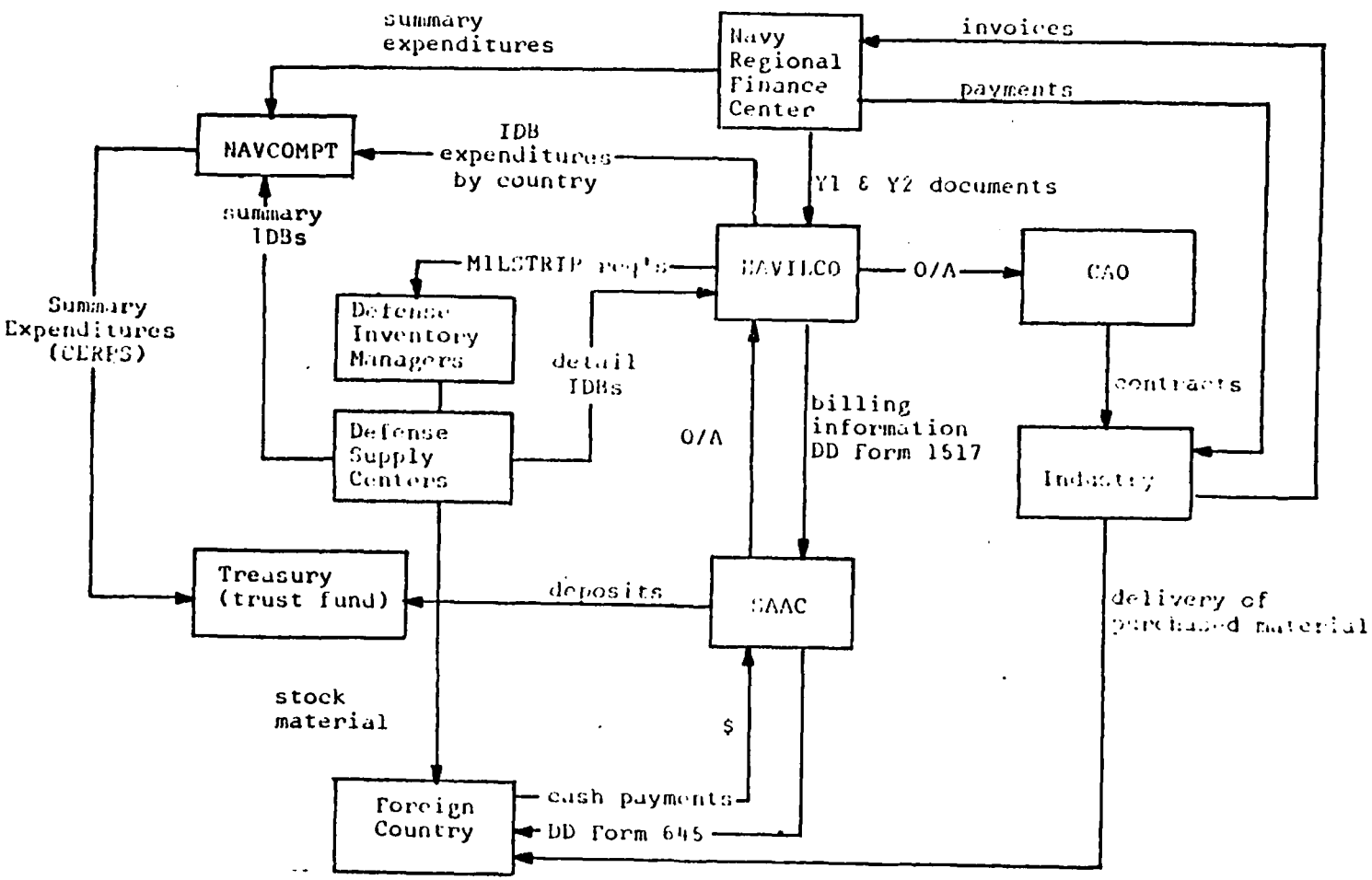
country's account. The document represents the official claim for payment by the U. S. Government and furnishes an accounting to the FMS purchaser of all costs incurred on his behalf for each FMS case.

The statements are forwarded to the foreign customer by SAAC every three months. The foreign customer is required to pay the bill within 60 days of the preparation date of the bill.

The complete flow of information between NAVILCO, SAAC, and other DOD agencies is depicted in Figure 5.

FIGURE 5

FLOW OF INFORMATION BETWEEN NAVILCO AND OTHER AGENCIES




Prepared by Author

## IV. NAVY FMS FLOAT

> The Navy acknowledges that a large unreconciled difference has existed in varying amounts between summary expenditures against the trust fund reported to Treasury and detailed expenditures reported in the sales case accounting rendered to SAAC through the Navy International Logistics Control Office (NAVILCO).[20]

### A. INTRODUCTION

In November 1979 a set of FMS management goals was promolgated by Chief of Naval Operations (CNO) to be met in fiscal year 1980. Prior to this time a high level management goals had not been established for the Navy FMS program. Included in the list of goals established for the Navy FMS program was the goal to eliminate all unidentified float and reduce the identified float in process to a normal backlog of $135 million during fiscal year 1980.[21]

Since November 1978 when the GAO made the finding that the Navy did not know the correct case balance being held in trust for countries involved in the Navy's FMS program, attention has been directed toward resolving the problem. The GAO report noted a large unreconciled difference between summary FMS disbursement data reported by the Navy to the Treasury (which maintains the trust fund) and detailed case expenditure records maintained by SAAC and NAVILCO. The report cited the fact that SAAC and NAVILCO's expenditure records were $554 million greater than the Treasury's as of

1 June 1978.

Since NAVILCO was responsible for reporting detailed case expenditure data to SAAC, the problem of the difference between SAAC's records and the Treasury trust fund balance was referred to NAVILCO.

This chapter examines the unreconciled difference between NAVILCO's detailed records and the Treasury trust fund account. An examination is made of the nature of the difference and methods used in calculating the identified and unidentified float between the two sets of records. In addition, the total float figure is split into individual categories or sublevels so that an appreciation for the causes of the float can be gained. Dollar figures used in this chapter are from December 1978 when the level of float was at the highest value. A later chapter will analyze the progress the Navy has made since December 1978 in reducing the identified and unidentified float.

## B. NAVY FMS EXPENDITURE FLOAT

The U. S. Treasury maintains a bank balance for each foreign country with whom the Navy has formed FMS agreements. The Treasury monitors deposits into the FMS trust fund made by the foreign country and subtracts summary level expenditure data for payments made by Navy Regional Finance Centers (NRFC) to pay for materiel procured for the foreign government under their Navy FMS agreements.

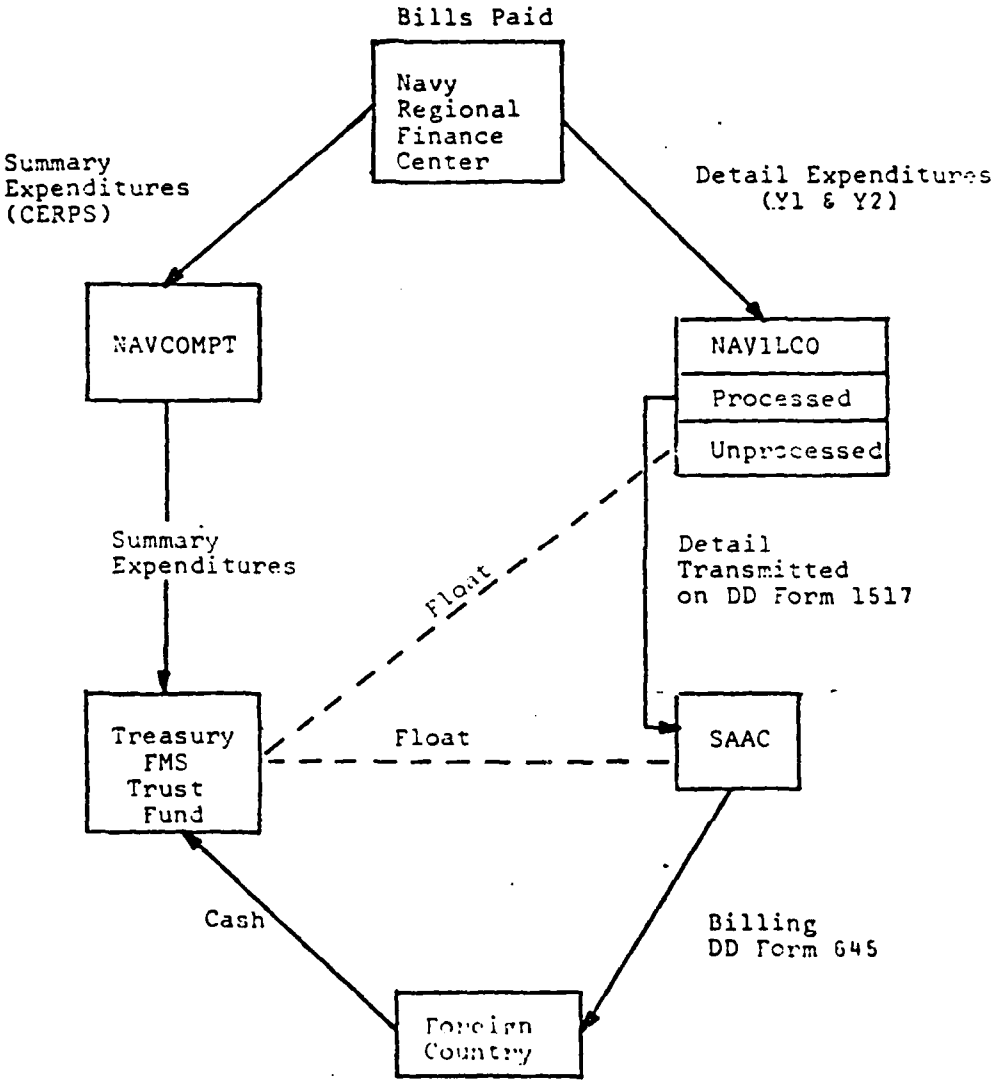
NAVCOMPT makes summary level monthly reports to the

Treasury through the Consolidated Expenditure Reimbursable Processing System (CERPS) on the amount of funds paid by Navy Regional Finance Centers against the funds of each country. Detailed supporting information for these payments is sent to NAVILCO to be reconciled against the specific obligations for materiel initiated for the foreign government and posted to the central expenditure records maintained at NAVILCO. Once matched to the specific country and case, billing reports (DD1517) are submitted to SAAC to support the detailed billings to the foreign country.[22]

The term "float" is used to described the difference between NAVCOMPT's summary level report of expenditures to Treasury via the CERPS reports, and the amount posted to NAVILCO's detailed case expenditure records as reported to SAAC. The majority of the float is caused by pipeline delays in processing the detailed expenditure data at the NRFCs, delays in transmitting the detailed information between the NRFCs and NAVILCO, and processing delays at NAVILCO once the information is received. In theory, the float should not usually be very large. An agreement made between DSAA and the Navy allows for a one month processing delay between the time the expenditure is reported to the Treasury and the time it is recorded on NAVILCO's expenditure records. This one month processing delay amounts to $135 million and is considered to be an acceptable float.[23] Figure 6 is a simplified chart showing the flow of expenditure information between the organizations involved and how the float is established.[24]

FIGURE 6

FOREIGN MILITARY SALES FLOAT




Prepared by Author

## C. RECONCILIATION PROCESS

The CERPS report is a monthly report made by NAVCOMPT to the Treasury summarizing expenditures made for each country within the Navy's FMS program for that month. Each detailed expenditure processed by NAVILCO is eventually recorded on a Status of Funds Authorization (NAVCOMPT Form 2025) when the transaction is reported to SAAC via the DD 1517. The NAVCOMPT 2025 is a cumulative report of all expenditures recorded against a particular Navy FMS case. A reconciliation can be made between NAVILCO's detailed expenditure records as shown on the NAVCOMPT 2025 and the Treasury account balance for each country as reported on the CERPS report.

Table II is a summary report showing the reconciliation between the Treasury records and NAVILCO's detailed expenditure records for December 1978. The reconciliation is made by using 1 January 1977 as the starting point. The Navy assumes that the two records reconciled at that date.[25] NAVILCO's detailed expenditure records show $40.7 million less expenditures than do the Treasury's summary expenditure records reported by CERPS as of 31 December 1978.

The NAVILCO side of the reconciliation reflects the net expenditures recorded against case records between 1 January 1977 and 31 December 1978. Added to that figure is all known expenditure transactions that have been recorded in the CERPS report but not recorded on a NAVCOMPT Form 2025 because of delay in transit or processing delay at NAVILCO;

TABLE II

RECONCILIATION BETWEEN NAVILCO AND TREASURY EXPENDITURES
31 December 1978

| NAVILCO DETAIL RECORDS | | TREASURY SUMMARY RECORDS RECEIVED FROM NAVCOMPT VIA CERPS | |
|---|---|---|---|
| Net change NAVCOMPT 2025 1 Jan 77 - 31 Dec 1978 | $3,057,342,565.96 | Summation of CERPS 1 Jan 7 - 31 Dec 78 | $3,339,833,128.57 |
| Plus Known Expenditures in Float | 540,339,656.42 | Expenditures made but not recorded to a country -- held in suspense | 298,544,265.04 |
| Total Expenditures Recorded or Received by NAVILCO | $3,597,682,232.38 | Total Expenditures Reported to Treasury | $3,638,377,393.61 |
| Plus Expenditures unaccounted for (Unidentified Float) | 40,695,161.23 | | |
| Balance Totals | $3,638,377,393.61 | | $3,638,377,393.61 |

Source: Naval Supply Systems Command

in other words, the known float.

The CERPS side of the reconciliation reflects the total expenditures reported to the Treasury for the same period. Since the CERPS is a monthly report, the figure shown in Table II is a summation of all CERPS reports for the period between 1 January 1977 and 31 December 1978. To the figure is added expenditures made to the Navy's FMS program but not identified to a particular foreign country. The expenditures are held in suspense until they are distributed to a foreign country's trust fund account.

The two sides of the reconciliation process should balance to the same number. In other words, all expenditures reported on the CERPS reports should be recorded on NAVILCO's detailed case records or be identified as float. In December 1978, the figures did not reconcile and the net difference between the two figures was $40.7 million. This figure means expenditures reported to the Treasury exceed known expenditures reported to NAVILCO. This amount is referred to as "unidentified float." The difference could have been caused by the loss of expenditure documents, erroneously processed transactions, or expenditures not accounted for as float.

The same reconciliation can be done on a country basis by comparing the summary level expenditure values reported to the Treausury through CERPS and the sum of the detailed expenditures recorded against each country on NAVILCO's records. In some cases the amounts posted to NAVILCO's records for a country plus the known float are less than the

total summary level expenditures reported to the Treasury. In other instances, the amount posted to NAVILCO's records plus the known float exceed the summary level expenditures reported to the Treasury. The net value of all situations where NAVILCO's records are over or under the Treasury account balance is the total unidentified float.

As of 31 December 1978, NAVILCO's records indicated expenditures posted to 50 countries were greater than the corresponding Treasury trust fund balance by a total of $108.8 million. Twenty-one countries' balances were just the opposite, recorded expenditure balances on NAVILCO's records were less than the Treasusry trust fund balance for the country by the amount of $111.8 million. Table III indicates the calculation of the net unidentified float given the countries with account balances over or under the CERPS reported to the Treasury.

The net unidentified float figure of $40.7 million tends to conceal the magnitude of the reconciliation problem the Navy has. The absolute value of the differences in expenditures between the Treasury trust fund and NAVILCO's records is a more accurate figure depicting the true extent of the differences. As 31 December 1978, the absolute figure was $220.6 million. As balances of countries that have been overbilled begin to equal the balances of countries that have been underbilled, the net unidentified float approaches zero. This tends to imply that the situation has improved. In the context of the total float, this is true since the float has

TABLE III

CALCULATION OF UNIDENTIFIED FLOAT
31 December 1978

| | |
|---|---|
| NAVILCO country records with balances less than reported by Treasury | $111,762,219.28 |
| Plus: | |
| Expenditures not reported to countries by Treasury -- held in suspense | 37,736,552.15 |
| Subtotal | 149,498,771.43 |
| Less: | |
| NAVILCO country records with balances greater than reported by Treasury | 108,803,610.20 |
| Unidentified Float | $ 40,695,161.23 |

Source: Navy International Logistics Control Office

decreased. However, in the context of billing accuracy, the situation is basically unchanged; the absolute amount of country balances that are over or under the total expenditures reported to the Treasury through CERPs remains excessively high, indicating that a country-by-country reconciliation has not been achieved.

## D. REASONS FOR FLOAT

Several factors have contributed to the growth of the unreconciled difference between the detailed case accounting records at NAVILCO and total expenditures reported to the Treasury. Initially the Navy's problems in accounting and reporting foreign military sales disbursements were disclosed when NAVILCO was required to transfer official detailed case accounting records to SAAC when it was established in 1976. The transfer of records occurred in early 1977. At that time the Navy was directed by DOD to reconcile the cash balance shown on their trust fund account records with the cash balances shown on their official detailed case accounting records prior to the transfer. Up to this point in time the Navy had maintained the trust account records for all Navy FMS sales. However, with the establishment of SAAC, the responsibility for trust fund accounting was transferred. It was at the time of the transfer that the unreconciled balance between the two accounts was discovered.

Upon the transfer of the cash balances to SAAC in early 1977, it was necessary for NAVILCO to make immediate

and significant changes to their computer programs to accomodate SAAC's new reporting requirements for simultaneous expenditure and delivery data to support SAAC's customer billings. By late 1977, the Navy had developed its new Management Information System, International Logistics (MISIL), which was to provide significant improvement in the control of the detailed case accounting at NAVILCO. The implementation of the computer program in eary 1978 required a large amount of "de-bugging", much more than the Navy had anticipated. As a complicating factor NAVILCO was also required to relocate during the same period from Bayonne, New Jersey, to Philadelphia. In that move from Bayonne to Philadelphia the Navy lost approximately 80 percent of its personnel at NAVILCO. Therefore, the Navy had to hire additional personnel to replace those lost and also train them on the requirements of the new MISIL program as well as the new requirements instituted to accomodate SAAC's new billing responsibilities.

The two events, the physical move of NAVILCO and the implementation of the MISIL computer program proved to be disasterous for NAVILCO in mantaining its case accounting records. For the next twenty-two months following the transfer to the SAAC, a backlog began to develop in unreported expenditures to SAAC. By September, 1978 the difference was approximately $497 million of which the net unidentified expenditure value was approximately $87 million. It was at this time that GAO issued its report stating that the Navy's

foreign military sales trust fund balance was unknown because of the large amount of float between the Treasury's records and the individual case accounting records at NAVILCO.

E. CATEGORIES OF FMS FLOAT

The identified float can be divided into six separate sub-categories because of unique characteristics associated with the cause of the delay in recording certain expenditures. Each of the categories is explained below, including the seventh category, unidentified float.

1. In transit

These are transactions that have been expensed at the NRFCs but the detailed expenditure information has not been received by NAVILCO. The transactions are in transit between NRFCs and NAVILCO. The delay in receipt by NAVILCO is caused by mailing time and processing time required to package the transactions at the NFRCs and distribute the transactions at NAVILCO.

2. Batch exceptions

These are detailed expenditure transactions which have not met the minimum edit criteria to be entered into the MISIL system at NAVILCO. Exceptions are caused because computer cards are improperly punched (off set), or document count and money value of individual transactions do not match the summary input card. Batches that fail the initial edit require manual correction and re-input.

3. Bill suspended

These are transactions that have met the preliminary edit criteria discussed above but because of more detailed accounting errors cannot be identified to the appropriate country and FMS case so that the expenditure can be matched with the appropriate obligation. The transactions are held in suspense in a computer file until they can be manually corrected and reprocessed.

4. Unprocessed vouchers

These are old transactions from 1977 and 1978 that have not been processed at NAVILCO. Most of the transactions were backlogged during the implementation of the MISIL system.

5. Procurement Accounting Reporting System (PARS)

This category is another in transit category for transactions processed by the Procurement Accounting Offices mainly for ship construction and related activities. The figure represents a reporting delay.

6. Suballotments/Polaris

These are funds that have been suballoted to activities other than NAVILCO, such as ASO, SPCC, and SSPO for management. Transactions in this category represent funds that have been expended by the other activities but not reported to NAVILCO.

7. Unidentified float

That portion of the float that is not identified. It can be thought of as a forced figure to balance the CERPS

reports with the detailed expenditure records at NAVILCO and the known float.

Table IV provides a breakdown of that total Navy FMS float as of 31 December 1978 by category.[27] In addition, goals developed by the Navy for each category are provided. The total goal for fiscal year 1980 is to reduce the total FMS float to $135 million and the unidentified portion of the float to zero.

In the next chapter reasons for the high level of float in particular categories are addressed, namely, in transit, batch exceptions, and bill suspended categories.

In addition, an analysis is made of the attempts by the Navy to reduce the identified and unidentified float since December 1978.

TABLE IV

CATEGORIES OF FMS FLOAT
31 December 1978

| Category | December | FY-80 Goal |
|---|---|---|
| Intransit | $ 54.5 | $55.0 |
| Batch Exception | 100.3 | 15.0 |
| Bill Suspended | 91.2 | 10.0 |
| PARS | 148.3 | 38.0 |
| Unprocessed Vouchers | 114.0 | 6.5 |
| Suballotments/Polaris | 32.0 | 10.5 |
| Unidentified | 40.7 | -0- |
| TOTAL | $581.0 | $135.0 |

Source: Naval Supply Systems Command

## V. CAUSES OF NAVY FMS FLOAT

### A. INTRODUCTION

The major reason for the large Navy FMS float is that a significant amount of disbursements which had been recorded against the trust fund have not been recorded on the detailed case accounting records at NAVILCO. Under the Navy's present disbursement accounting system, Navy Regional Finance Centers (NRFC) submit monthly reports to NAVCOMPT which include summary disbursement data for FMS. NAVCOMPT in turn submits the data to the Treasury for posting to the trust fund account. NRFCs also provide detailed disbursement data directly to NAVILCO on a daily basis for ultimate posting to detailed case accounting records. The Navy is taking considerably longer to post disbursements to the detailed case accounting records than it takes the Treasury to post summary disbursement data to the trust fund account. Ideally, the detailed expenditure reported to NAVILCO by the NRFCs should process immediately and initiate the transfer of billing information to the SAAC. However, the process does not occur that smoothly. Assuming that $135 million is the average amount of expenditures reported to NAVILCO monthly, at the end of December 1978 NAVILCO had a backlog of over four months' worth of expenditures awaiting processing.

This chapter will analyze the causes for the delay in processing of the detailed expenditures by NAVILCO. Areas

examined are delays caused by batch exceptions errors, in transit delays between NRFCs and NAVILCO, processing delays at NAVILCO caused by suspended transactions, and errors in detailed expenditure documents received from NRFCs.

Table V shows a breakdown of the Navy FMS float from December 1978 through September 1979 into separate categories. The three categories, batch exceptions, in transit, and bill suspended, represent 66 per cent of the total float as of September 1979. They represented only 42 per cent of the total float as of December 1978. The percentage increase has been caused by a relatively constant level of float in the three categories with a corresponding decrease in the total overall float. The total decrease in the float occurred mainly in suballotments/polaris, contracter identified and unidentified float categories. In fact, the proportion of float represented by the latter categories has decreased by 39 per cent between December 1978 and September 1979 reflecting the Navy's ability to reduce the float in these categories.

For the Navy to reduce the overall float further, the float represented in the categories of batch exceptions, in transit, and bill suspended must be reduced significantly. For that reason only those categories are addressed in this chapter.

TABLE V

FMS FLOAT
(in millions)

December 1978 to September 1979

| Category | Dec. | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sep. | Goal |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Batch Exceptions | $100.3 | $ 98.6 | $105.5 | $147.6 | $ 86.0 | $ 87.1 | $ 72.2 | $ 67.4 | $ 64.3 | $ 44.7 | $ 15.0 |
| Intransit | 54.5 | 59.0 | 72.6 | 41.5 | 27.4 | 57.3 | 48.9 | 68.1 | 75.0 | 48.6 | 55.0 |
| Bill Suspended | 91.2 | 91.5 | 87.8 | 73.6 | 47.0 | 36.8 | 28.7 | 39.8 | 33.3 | 33.3 | 10.0 |
| PARS | 148.3 | 34.2 | 58.1 | 41.0 | 38.2 | 50.0 | 50.3 | 43.4 | 30.1 | 27.3 | 38.0 |
| Unprocessed Vouchers | 114.0 | 76.7 | 77.3 | 16.7 | 16.7 | 14.8 | 13.6 | 7.2 | 7.0 | 14.3 | 6.5 |
| Suballotment/Polaris | 32.0 | 29.5 | 32.1 | 33.2 | 29.1 | 29.9 | 15.2 | 16.7 | 16.9 | 26.4 | 10.5 |
| Contractor Identified | -0- | -0- | -0- | -0- | -0- | 3.5 | 45.5 | 72.7 | (14.5) | -0- | -0- |
| Net Unidentified | 40.7 | 40.5 | 102.3 | 93.3 | 92.7 | 88.7 | 53.9 | (11.4) | (2.2) | (3.2) | -0- |
| Total Float | $581.0 | $430.0 | $535.7 | $446.0 | $337.1 | $368.1 | $328.2 | $303.9 | $209.9 | $191.4 | $135.0 |

Prepared from NAVILCO records

B. PROCESSING REQUIREMENTS

NAVILCO is required to match each detailed expenditure with a corresponding obligation inputed in the MISIL program. Case Administrative Offices (CAO) are granted obligational authority by NAVILCO for procurement of materiel and services for a particular Navy FMS case. The CAO is reponsible for submitting copies of all contracts for materiel and services and identifying each separate line item within the contract by a requisition number. NAVILCO uses this information to establish obligations by requisition number on the MISIL for eventual matching with the detailed expenditures.

As detailed expenditures are received from the NRFCs, NAVILCO attempts to match the expenditure with the corresponding obligation. A matching is required on all mandatory data fields shown on the Y1 and Y2 document shown in Appendix B (identified by an M under the data field).

The processing of detailed expenditures is made in separate distinct stages within the MISIL program. At any stage, errors detected within the expenditure document when matched against the corresonding obligation will cause the document to be suspended from further processing. The suspended transaction is held in a suspended bills file until the errors are investigated and manually corrected to allow further processing. An expenditure can be reported to SAAC when the detailed expenditure document matches the corresponding obligation document in all mandatory data fields. When this occurs, the expenditure is reported to the SAAC

via the DD Form 1517.

C. BATCH EXCEPTIONS

Detailed expenditure documents are received from NRFC formatted on Y1 and Y2 FMS Expenditure Cards (format in Appendix B) which contain all the necessary billing information. Each Y1 and Y2 card is supported by a copy of the corresponding invoice and public voucher which was used to make the payment at the NRFC. In addition a Z Summary card (format in Appendix B) is included with each batch of Y1 and Y2 cards as a control card summarizing the document count and extended money value.

Prior to acceptance of the detailed expenditure information into the MISIL program, all Y1-Y2 batches are validated to ensure that the correct Authorized Accounting Activity (AAA) is being charged, the Z Summary card is valid, and that the batch is not a duplicate. If any of these exception conditions exist, the entire package is rejected. Next, the program does a matching of the summary information on the Z Summary card with the detail expenditure information on the Y1 and Y2 documents within the batch. If the information does not match, the entire batch of cards is rejected and not accepted into the program. These exceptions are called batch exceptions.

A number of reasons cause the rejection. Besides the invalid information, the cards can be mispunched or offset punched, which prevents acceptance of the information by card

reading equipment at NAVILCO. Also, Y1 and Y2 cards can be missing from the batch preventing the matching of batch information with the Z Summary card. Either of the above situations must be manually corrected at NAVILCO or the entire batch returned to the NRFC for correction. The number of exemptions can be numerous. As of December 1978, the value of exceptions amounted to $100.3 million with the goal established at NAVILCO to be $15 million per month.

Table V shows that batch exceptions have averaged $87.4 million per month between December 1978 and September 1979. Within the last six months of the period, the total has been reduced steadily to a balance of $44.7 million as of September, still substantially above the goal of $15 million per month.

The problem of batch exceptions is not NAVILCO-caused but a problem caused by the method in which NRFCs prepare batches of detail expenditure documents for transfer to NAVILCO. An examination of the process at NRFC, Oakland revealed that Y1 and Y2 cards were not validated prior to transfer to NAVILCO. All processing of Y1 and Y2 images was accomplished by tape or disk processing, including the balancing process to ensure all FMS payments made for the period at the NRFC were supported by Y1 and Y2 transactions. Once the process is complete, Y1 and Y2 cards were punched from the tape images. No attempt is made to read the cards to ensure the cards are readable on card reading equipment.

D. IN TRANSIT DELAYS

Directly associated with batch exceptions is the delay in reporting detail expenditure transactions between NRFCs and NAVILCO. Table VI reports the results of a survey performed by NAVILCO which shows the average time expenditures are in transit between NRFCs and NAVILCO for the fourth quarter of fiscal year 1979.

TABLE VI

AVERAGE IN TRANSIT TIME

| NRFC | Average In transit Time (Days) | Average Number of Documents | Money Value |
|---|---|---|---|
| Washington | 22 | 391 | $(470.9) |
| Norfolk | 15* | 5314 | 158.9 |
| Great Lakes | 13* | 2652 | 79.1 |
| San Francisco | 15 | 154 | 46.0 |
| San Diego | 22* | 1018 | 36.1 |
| Average | 18 | 9529 | |

*overnight air service used

Prepared from NAVILCO records

Y1 and Y2 documents are defined to be in transit between the time the expenditure is paid and eventually received by NAVILCO for processing. The documents are in transit for an average of eighteen days. The in transit delay is caused by the tremendous clerical task required to gather a copy of the invoice and public voucher for each Y1 and Y2 transaction. Under the present method of processing Y1 and Y2 documents,

backup documentation must be submitted with the Y1 and Y2 documents when they are forwarded to NAVILCO.

The in transit times vary greatly between the NRFCs. The reason for the variance is not clear. It appears from Table VI that that it is not proportional to the number of expenditure documents processed by the NRFC. Currently, there is a seven day processing standard placed upon the NRFCs for the reporting of expenditures to NAVILCO, although it does not appear that any NRFC is capable of meeting the standard.

Surveys at NAVILCO indicate that the mail time between NRFCs and NAVILCO averages about three to four days. In an effort to reduce the in transit time an overnight air service is used from Norfolk, Great Lakes, and San Diego. Without this service, the average in transit delays from these NRFCs would be approximately 19, 17, and 26 days respectively.

Table V reveals that the Navy has made little progress in reducing the amount of float in the in transit category between December and September toward their monthly goal of $55 million. In fact, the figure for August 1979 of $75 million was the highest for the entire period.

The in transit category amounted to 9 per cent of the float in December 1978 and 36 per cent in August 1979. This reflects the inability of the Navy to reduce the figure in relationship to the total float. The greater percentage in August is caused by the absolute reduction in the total float and the relatively constant level of expenditures in transit category each month.

NAVILCO has little control over the transactions in transit. It can only input the transactions into the MISIL upon receipt of the Y1 and Y2 cards from the NRFCs. NAVILCO has no administrative control over the NRFCs. Since there are no processing standards or goals for the NRFCs in regard to the procssing of Y1 and Y2 transactions, NAVILCO can only attempt to reduce the float in those categories in which it has direct control; namely, the bill suspended, unprocessed vouchers, and unidentified float categories. A review of Table V indicates that substantial reductions have been made in these categories.

However, the method of transferring expenditure information between NRFCs and NAVILCO must be questioned. First the use of computer cards as a means of transmitting data is slow and archaic especially with the present means available to telecommunicate data. Second, an inordinate amount of time (18 days on the average) is consumed providing supporting documentation for each Y1 and Y2 card and delaying the transfer of detailed expenditure data to NAVILCO. For the in transit category of float to be reduced significantly each of the above problems will have to be addressed and solved.

## E. SUSPENDED TRANSACTIONS

Each detailed expenditure received by NAVILCO must process through three basic levels of processing within the MISIL program before the expenditure is reported to the SAAC via the DD Form 1517. The detailed expenditure represented

by the Y1 and Y2 card is required to match the existing obligation at each of the below processing levels.

Processing order:

1. Country. The country which the detailed expenditure was billed against must match the country code on the obligation. The country is identified on the Y1 card by an alpha code in data fields 63 and 64 and the subhead in data fields 47 through 50.
2. Case. Identifies the case within a particular country's FMS program the expenditure is to be billed against. The case code is a three digit alpha code in data fields 20 through 22 on the Y2 card. This code must match the code on the obligation.
3. Requisition or Line. Identifies the particular line item procured. The requisition number in data fields 11 through 18 must match the requisition on the obligation. If the two match, the item description (NSN or part number) is taken from the obligation document. The Y1 and Y2 card does not carry the item description.

If the Y1-Y2 document pair does not match at any of the above processing levels, the transaction is suspended and held in the Bill Suspended file within the MISIL. To continue processing, the document must be manually researched to determine the error and the error corrected. Depending at what level the document is suspended will determine if it has

an affect on the FMS float or not.

1. Case level exceptions

Documents that can only be identified to the country level are classified as case level exceptions; in other words, the expenditure has not been identified to a particular case because of errors in the expenditure document. Transactions suspended at this level of processing affect the float since the expenditure cannot be billed against a particular case. These transactions are classified under the bill suspended category of the Navy FMS float.

2. Line level exceptions

Expenditures that are identified to country and case but cannot be processed to requisition or line level are called line level exceptions. Expenditures in this category do not affect the float. This is because the expenditure is transmitted to the SAAC as a money value only expenditure to a particular case. Since the expenditure cannot be processed to the unique line item procured, it is billed as a "pseudo" progress payment against a case. The expenditure will eventually have to be processed to the line level. When this occurs, the "pseudo" progress payment entry is reversed and the expenditure is billed as an expenditure to a particular line item.

3. Backlog of exceptions

Table VII shows the number and money value of case and line level exceptions for the period of March through September 1979.

TABLE VII

CASE AND LINE LEVEL EXCEPTIONS

| Month | Case Exceptions Dollars (millions) | Case Exceptions Documents | Line Exceptions Dollars (millions) | Line Exceptions Documents |
|---|---|---|---|---|
| March | $73.6 | 14,464 | $1,835 | 102,342 |
| April | 47.0 | 14,914 | 1,624 | 107,503 |
| May | 36.8 | 13,569 | 1,539 | 104,072 |
| June | 28.7 | 13,781 | 1,487 | 110,536 |
| July | 39.8 | 14,750 | 1,454 | 113,553 |
| Aug | 33.3 | 14,296 | 993 | 117,338 |
| Sept | 33.3 | 15,313 | 1,097 | 126,052 |

Prepared from NAVILCO records

For the period, the case level exceptions were reduced in money value by over 50 per cent, although the total number of transactions suspended gained slightly. The reduction in money value was caused by the Navy's efforts to reduce the overall float. A concerted effort was made to reduce the large money value case exceptions first because of the significant affect it would have on reducing the float. However, since the total number of exceptions has increased, the age of the exceptions not corrected is increasing. Since the clerical effort required to reduce is not proportional to its money value, NAVILCO is falling behind in its processing of case level exceptions.

The same analysis can be made of the line level exceptions; the total money value of line level exceptions has decreased by about 40 per cent but the total number of exceptions suspended has increased by about 23 per cent. Also,

the total number of line level exceptions is significant, when compared to the fact that the average number of expenditures received per month during fiscal year 1979 was 9,651 expenditure documents. This indicates that the backlog in line level exceptions requiring correction is equal to over 13 months of expenditures. The backlog in the number of case level exceptions amounts to about 1.5 months. This is significant when the goal of the Navy is to reduce the float to less than one month's expenditure transactions. Considering the fact that the Navy has made a significant effort to reduce the case level exceptions between January and September 1979, the actual number of exceptions has remained the same.

The trend in both categories of exceptions indicated that the total number of exceptions are increasing, although the money value is decreasing. The effect on the Navy's FMS float has been good with the decrease in the total money value case level exceptions over the period. However, with the increase in the total number of exceptions NAVILCO is falling behind in the processing of case and line level exceptions. Table VIII shows an aging of case and line level exceptions for the months of July, August, and September.

As seen in the table, the number of exceptions is increasing as well as the number of exceptions over 90 days old. It indicates that NAVILCO cannot process exceptions as fast as they occur.

TABLE VIII

AGING OF EXCEPTIONS

| Month | Total Documents | Age Group (in days) 1-30 | 31-60 | 61-90 | Over 90 |
|---|---|---|---|---|---|
| July | 128,303 | 8,877 | 7,298 | 13,718 | 98,410 |
| Aug. | 131,634 | 8,944 | 6,873 | 6,199 | 109,618 |
| Sept. | 141,365 | 13,920 | 8,155 | 4,949 | 114,341 |

Prepared from NAVILCO records

F. ERRORS ON Y1-Y2 EXPENDITURE CARDS

The high level of case and line level exceptions is caused in part by errors in Y1-Y2 expenditure documents. These errors prevent the expenditure documents from matching the pre-established obligation in the MISIL.

In order to determine the source and frequency of errors in Y1-Y2 documents, a survey was made of all Y1-Y2 documents received by NAVILCO for July, August, and September 1979, by a private contractor. The following data fields were screened on all Y1-Y2 documents received during the three months. Each Y1-Y2 document was compared to the backup documentation submitted with it to determine if any errors existed in the Y1-Y2 document. Fields screened were:

1. Standard Document Number - cc 22-37 on Y1 card
2. Property Accounting Activity - cc 62-67 on Y1 card
3. Case Code - cc 20-22 on Y2 card
4. Requisition Number - cc 11-18 on Y2 card

If the data field was empty or the coding incorrect for the

field, the backup documentation (voucher and invoice) was examined to determine if the correct information could be retrieved. The results of the survey are depicted in Appendix C.

Error rates are shown for each NFRC indicating what percentage of the fields surveyed were incorrect or blank. The error rate only reflects the errors detected in the four fields examined and does not include errors that may have been made in other fields on the Y1-Y2 documents. The fields screened are considered the more important data fields since the information contained is essential to the processing of the document and the most difficult to correct since backup documentation must be consulted prior to making any corrections. Therefore, correction of errors in these fields is the most time consuming. It must also be emphasized that the error rate for each NRFC cannot be totally attributed to the finance center. In many cases, the NRFC perpetuates accounting data received from contracts or from other paying offices which report to the NRFC. The error rate does indicate the number of corrections that ultimately would have had to be made at NAVILCO in order for the expenditure documents to process completely through the MISIL. Although, the fields surveyed are the most critical for processing through the MISIL, errors in other Y1-Y2 data fields could prevent the complete processing of the document without some manual correction.

The error-rate analysis does indicate a variance in

error rates between NRFCs. The reason for the variance has not been explained. A comparison of all the months indicates that Great Lakes had a substantially lower error rate than the other NRFCs. Assuming that errors on contracts submitted to the NRFCs for payment are evenly disbursed throughout all contracts, it can be argued that some NRFCs are correctiong data fields even though they are not used for payment, thus reducing the overall error rate at NAVILCO.

An examination of the type of errors on the Y1-Y2 documents indicates that 64 per cent of the errors discovered would have prevented the expenditure from billing to a case. All the transactions affected would have been suspended as case level exceptions and would have increased the Navy FMS float if not corrected. Of the total number of errors discovered, which totaled to 9376 fields of data, 2708 of the fields, or 29 per cent of the errors, could not be corrected with information provided from the backup documentation. Some of the errors could not be corrected because 1147 of the Y1-Y2 documents were submitted without backup documentation. This accounts for about four per cent of the total Y1-Y2 documents submitted for the period surveyed. To correct the expenditures, additional research would have to be performed which usually requires an examination of a copy of the contract under which the expenditure was made.

Analysis of the type of errors indicates that 46 per cent of the errors were made in the standard document number field of the Y1-Y2 document. The majority of the errors were

caused by erroneous data in the data field. The standard document number is a significant data field. It is widely used by clerks at NAVILCO to research errors on Y1-Y2 documents once the transaction is suspended in the MISIL. If the standard document number, which is identical to the contract number, is blank or incorrect on the Y1-Y2 document, the process of researching the expenditure becomes very difficult and time consuming. This is because there is no clear audit trail. The public voucher or invoice may have the contract number on it but many times it does not, which leaves the clerk without any other ready source for the data to make the correction.

The standard document number is a mandatory field on the Y1 card. However, interviews at NRFC, Oakland indicated that the field was left blank when Blanket Purchase Agreements (BPA) or General Services Administration (GSA) contracts were used to procure FMS materiel. It was stated that NAVCOMPT regulations did not require the field to be used if BPA or GSA contracts were used. The survey of Y1-Y2 documents indicated that the standard document field was left blank on only 366 documents out of the 28,588 submitted. However, it was incorrect on 3953 of the documents. Therefore, 15 per cent of the Y1-Y2 documents do not have a clear audit trail when the document is suspended in the MISIL for an incorrect or missing contract number.

G. LACK OF DATA VERIFICATION

Data for the preparation of Y1-Y2 documents is acquired from three basic sources. These are the invoice submitted by the contractor, a copy of the contract submitted by the CAO to the NRFC, and information which originates at the NRFC during the disbursement process, namely, the voucher number, register number, and paying date. Errors on Y1-Y2 documents usually originate from the first two documents or are introduced during key punching at the NRFC.

No data verification or editing is performed by the ADP programs at the NRFCs for data fields that do not affect the NRFC data files. The implied assumption is that whatever data is submitted to the NRFC is correct and therefore perpetuated further to NAVILCO.

A review is currently performed at NRFCs on incoming contracts and invoices for payment only to ensure the basic information required to make payment is available. A review of all data fields is not performed as a general rule.

I. NAVILCO INDUCED SUSPENSION OF EXPENDITURES

Prior to the reporting of a final expenditure to the SAAC, it is required that the detailed expenditures reported by the NRFC match an obligation previously entered in the MISIL. The major cause preventing matching are errors in the Y1-Y2 documents. However, documents may not match because of errors in obligation documents or obligations not entered into the MISIL. As of 1 August 1979, the backlog of contracts not obligated on the MISIL amounted to 4300 contract

lines and 3000 work request lines or 7300 line item requisitions. According to the supervisor for the Discrepancy and Contract Status Division at NAVILCO, some of the contracts were more than ten months old.[28]

Since matching in the MISIL is eventualy accomplished at the requisition level, all contracts must be obligated by requisition number. Many large money valve contracts can consist of hundreds of requisitions for separate line items. Each of these requisitions must be entered separately into the MISIL so that the matching can occur by line item. Delays in input can prevent a valid and correct expenditure from matching an obligation. The number of suspended expenditures can become quite large for work requests and contracts in which progress payments are made. Without the obligational document, each of the payments will become a separate case level exception in the bill suspended file.

## VI. CONCLUSIONS

The Navy FMS float is caused by a multitude of factors. However, there are two major causes that contribute significantly to the overall float. These are first, the in transit delay between the time the expenditure is recorded at the NRFC and the time the detailed expenditure is received at NAVILCO. Second, the excessive number of errors on Y1-Y2 cards which prevent the rapid processing of expenditures through the MISIL without manual clerical correction of the documents.

For the float to be reduced and maintained at a reasonable level both of the above problems must be addressed. To date the Navy has not satisfactorily addressed either issue. It is not reasonable to assume that the Navy will reduce float or maintain the float at a level equal to or less than one month's expenditures when the delay in reporting expeditures between NRFCs and NAVILCO averages 18 days. This along with the fact that all expenditures once reported to NAVILCO cannot process through the MISIL without some type of correction made to the document, indicates that it is questionable that all detailed expenditures can be processed at NAVILCO and transmitted to the SAAC in 30 days.

An informal study performed at NAVILCO in September 1978 indicated that only 17 per cent of the Y1-Y2 documents received in September actually processed to completion within

the month.[29] The balance were suspended in transaction as exceptions. Informally, individuals at NAVILCO currently feel that one third of the Y1-Y2 documents are now processing through the MISIL without corrections, although the figure has not been confirmed with statistics.[30] This is still a relatively low figure. It means that approximately 6,434 of the 9,651 average number of Y1-Y2 documents received monthly require some type of manual clerical correction. Since the number of case level exceptions in the bill suspended file has increased only slightly in the period between March and September 1979, it indicates that the processing of case level exceptions is at best equal to the rate at which they are received at NAVILCO.

The processing of line level exceptions is another matter. During the same period, the number of line level exceptions has increased by about 23 per cent indicating a difficulty for NAVILCO in processing the exceptions with the current backlog equal to over 12 months of expenditures. Although line level exceptions have no effect on the float, NAVILCO cannot let the trend continue without taking some further action to reduce the balance. The large backlog affects other processes at NAVILCO such as case closures and ultimately the rendering of timely and effective billing to foreign customers. If personnel resources are reallocated to processing line-level exceptions at the expense of processing case level exceptions, the float could easily increase in the bill suspended category.

The average monthly money value of expenditures received by NAVILCO was $112.2 million for fiscal year 1979 with the range between $93.6 and 125.3 million. Of this amount approximately $64.1 is prepresented by Y1-Y2 documents. The balance is summary expenditures reported to NAVILCO by holders of suballotments, namely, the PARS and the Polaris accounts. At the time the goal of $135 million was established as a acceptble level of float, the monthly money value of expenditures was much higher because of the Iranian FMS program. Since that time the average money value of monthly expenditures has decreased, it is questionable if $135 million is an appropriate value for the goal of the Navy FMS float and should be reevaluated.

What becomes important is what is a realizable goal in the sense of being attainable. Theoretically, one month's float seems reasonable, however when the in transit and high error rate of Y1-Y2 documents are considered, it is questionable if one month's expenditures is an attainable float goal. The money value of expenditures in batch exceptions, in-transit, and bill suspended categories as of September 1979 equalled $126.6 million, nearly the goal of $135 million.

The Navy had planned on attaining a float of $135 million by 31 July 1979, an optimistic plan at best.[31] The plan assumed that NAVILCO had direct control over the float. However, NAVICLO in fact depends highly upon other organizations for the smooth and timely processing of

detailed expenditures. First, it depends on the CAO for originating the contract in the proper manner with the correct accounting data. Second, it depends on the NRFC to process the payment promptly and report the expenditure to NAVILCO rapidly. Both organizations could improve their performance and assist in reducing the error rate in the Y1-Y2 documents, which ultimately would help reduce the overall float. Yet, NAVILCO has little influence over either organization to effect the change. But, for the overall float to be reduced further in the short term, significant reductions will have to be made in the in transit and batch exception categories. For this to occur, assistance must be gained from the NRFCs.

## VII. RECOMMENDATIONS

In order to reduce the in transit and batch exception categories of float in the short term, it is recommended that a change be made in the method of processing Y1-Y2 expenditure documents. Currently, there is a delay of approximately 18 days between the time the expenditure is made at the NRFC and eventually reported to NAVILCO. Most of the delay is caused by gathering and packaging backup documentation prior to mailing or delivery of the documents to NAVILCO.

1. It is recommended that the transfer of Y1-Y2 expenditure information be telecommunicated between NRFCs and NAVILCO as soon as possible after the FMS expenditure is made at the NRFC without the supporting documentation. Supporting documentation would be submitted later (e.g., within 18 days) for Y1-Y2 documents which eventually do not process through the MISIL. Two major advantages are achieved by the change in the method of reporting detailed expenditure information. First, most of the current float caused by batch exceptions could be reduced significantly by the elimination of punched cards as the transfer vehicle. The likelihood of data being rejected by the MISIL would be minimized because the readability of electronic data transfer is more reliable. With this method of data transfer, the backlog of data in the batch exception category can be essentially eliminated.

The second advantage and greatest reduction in the float would be achieved in the in transit category. It is

estimated the float could be reduced by a minimum of $6.0 million per month within this category by transferring Y1-Y2 expenditures immediately to NAVILCO. Calculation of the reduction in float is based on at least 17 per cent of the Y1-Y2 documents processing completely through the MISIL without the need for any manual clerical corrections as reported in the NAVILCO study cited in Chapter VI. The reduction in the float amounts to the money value of these transactions. Calculation of the reduction is shown in Table IX.

A number of assumptions are made in the calculations. First, it is assumed that detailed transactions suspended during a typical month are not corrected during that month. Under both methods backup documentation is received 18 days after the expenditure is made at the NRFC. Any corrections to the documents would have to be made in the last 12 days of the month. Since under both methods the time available to make corrections is the same, the net difference in the float would remain the same.

Second in the calculation, it is assumed all expenditures transferred to NAVILCO are accepted into the MISIL. No expenditures are rejected as batch exceptions although the likelihood of this occurring is greater under the current method of data transfer than the proposed method.

Third, the assumption is made that NAVILCO will continue to process Y1-Y2 documents daily and the processing can be completed in one day.

Fourth, it is assumed that expenditures average $64.1

TABLE IX

REDUCTION IN FLOAT

Average monthly expenditures received at NAVILCO:
$64.1 million

Average daily expenditure
(64.1/30 days): $ 2.14 million

A. Float Under Current Method of Data Transfer:

| Expenditures: | Float (millions) |
|---|---|
| In transit: 18 days X 2.14m | 38.52 |
| Bill suspended: 12 days X (.83 X 2.14m) | 21.31 |
| Processed: .17 X 2.14m = .36m | |
| Total Monthly Float | 59.83 |
| Average Daily Value (30 days) | 1.99 |

B. Float Under Proposed Method of Data Transfer:

| Expenditures: | |
|---|---|
| In transit: 1 day X 2.14M | 2.14 |
| Bill suspended: 29 days X (.83 X 2.14M) | 51.51 |
| Processed: .17 X 2.14M = .36M | |
| Total Monthly Float | 53.65 |
| Average Daily Value (30 days) | 1.78 |

| | |
|---|---|
| C. Difference in Daily Amount | .21 |
| Average Monthly Difference (30 days) | 6.30 |

million per month and are evenly distributed throughout the month.

The advantage of the proposed method of data transfer is that it allows Y1-Y2 documents that contain no errors to be processed immemdiately by NAVILCO instead of being delayed 18 days. Therefore, the float for these transactions is reduced from 18 days on the average to approximately one day. Under the proposed method, the greater the percentage of documents that contain no errors, the greater the reduction in the float. If the percentage of documents that contained no errors was one third, which many at NAVILCO feel it is, instead of the 17 per cent used in the Table IX calculations, the decrease in the monthly float would be $12.0 million. If the *no error* rate was to increase to 50 per cent, the float would decrease by $18.0 million.

2. It is further recommended that under the proposed method of data transfer, the requirement for the NRFC to submit backup documentation be eliminated for all Y1-Y2 documents that process completely through the MISIL without the need for a manual correction. This could easily be accomplished by NAVILCO notifying the NRFC after processing Y1-Y2 documents which documents processed through the MISIL, eliminating the need for the NRFC to gather the invoices and public vouchers for the processed Y1-Y2 documents.

This recommendation would provide an incentive to the NRFCs to process FMS expenditures in such a way as to minimize errors on Y1-Y2 documents. The reward to the NRFC would

be a reduced work load as compared with the present method of processing Y1-Y2 documents.

For NRFCs that currently have relatively low error rates on Y1-Y2 documents, their work load could be substantially reduced. For those with higher error rates, their work load could also be substantially reduced by screening contracts and invoices carefully to ensure data fields affecting Y1-Y2 expenditure are correct prior to key punching.

If the proposed recommendations are instituted by NAVILCO and aggressively marketed to the NRFCs, it is highly probable that the error rate could be reduced on expenditure documents. This would effectively reduce the effort necessary at NAVILCO to correct Y1-Y2 document errors. In addition, by increasing the percentage of documents that do not require correction, the effect on reducing the float is magnified.

It is not the intent of this thesis to propose methods for reducing particular errors on expenditure documents but only to provide an incentive mechanism to NRFCs to assist in reducing the errors. NAVILCO could offer to provide publications, guides, or training to NRFCs to assist them in reducing error rates. In a sense, the recommendation is attempting to encourage the NRFCs to edit contract documents and invoices prior to payment and make changes that would hopefully reduce the incidence of errors in expenditure documents. There is the inherent possibility that additional errors could be introduced into the expenditure documents if

the NRFCs do not perform the edit function competently. It also places the NRFC in the possible position of an auditor as well as a paying agent.

Under the current methods of reporting expenditure documents, NAVILCO is being deluged with documents with tremendous error rates. Evidence indicates that the backlog in total exceptions is growing and that NAVILCO cannot process the exceptions fast enough to eliminate the backlog to less than one month's expenditures in the near future. The assistance of the NRFCs in reducing any future errors could have a major effect on eliminating the continued increase in the backlog and also reduce the current level of float.

3. To ensure that the maximum number of error-free Y1-Y2 documents are processed through the MISIL, NAVILCO must ensure that procurement documents outstanding have obligations established in the MISIL. For this reason, it is recommended that the backlog of procurement documents not inputed into the MISIL not be allowed to exceed a specific age. The specific age should be established by NAVILCO to ensure with a high degree of reliability that all Y1-Y2 documents submitted for processing will have a corresponding obligation to match. If error-free Y1-Y2 documents are suspended from processing because of the lack of a corresponding obligation, credibility will be lost with the NRFCs. The timely and accurate input of obligations into the MISIL is essential for the proposed method of processing Y1-Y2 expenditure documents.

## APPENDIX A

## GLOSSARY OF ACRONYMS

| | |
|---|---|
| AFAFC | Air Force Accounting and Finance Center |
| ASD | Assistant Secretary of Defense |
| ASO | Aviation Supply Office |
| CAO | Case Administering Office |
| CERPS | Consolidated Expenditure Reimbursable Processing System |
| CNO | Chief of Naval Operations |
| DOD | Department of Defense |
| FMS | Foreign Military Sales |
| GAO | Government Accounting Office |
| IDB | Interdepartmental Billings |
| MAP | Military Assistance Program |
| MISIL | Management Information System, International Logistics |
| NAVCOMPT | Navy Comptroller |
| NAVSUPSYSCOM | Naval Supply Systems Command |
| NAVILCO | Navy International Logistics Control Office |
| NRFC | Navy Regional Finance Center |
| PARS | Procurement Acquisition Reporting System |
| SAAC | Security Assistance Accounting Center |
| SPCC | Ships' Parts Control Center |
| SSPO | Strategic Systems Project Office |

# APPENDIX B

## FORMAT OF Y1 AND Y2 EXPENDITURE AND Z SUMMARY CARDS

**Y1 FMS EXPENDITURE INPUT FORM**
**4ND NAVILCO 5230/702 (REV. 10-78) (E20)**

| TO | FROM | DATE |
|---|---|---|
| ASOADPS BLDG.2A | | |

| REC ID | | NRFC | CALMO | SERIAL NUMBER | | | | DATE PAID DAY | | REGISTER NO. | | REGISTER MO. | | AUTHORIZED ACCOUNTING ACTIVITY | | | | | | STANDARD DOCUMENT NUMBER: UNIT IDENTIFICATION CODE | | | | | | F/Y OF DOC | | TYPE | | SERIAL NUMBER | | | | | | | ACRN | | DOD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 |
| Y | 1 | | | | | | | | | | | | | 0 | 6 | 5 | 9 | 1 | 6 | | | | | | | | | | | | | | | | | | | 4 |
| M | | M | M | M | | | | M | | M | | M | | M | | | | | | M | | | | | | | | | | | | | | | | | O | | M |

| APPN SYMBOL | | | | | | APPN SUBHEAD | | | | OBJECT CLASS | | | BUREAU CONTROL NUMBER | | | | | SUBAL | TYPE CODE | | PROPERTY ACCOUNTING ACTIVITY | | | | | | CLASS | DATE PROC | | VOUCHER NUMBER | | | | | D.O. SYMBOL NUMBER | | | | BLANK |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 41 | 42 | 43 | 44 | 45 | 46 | 47 | 48 | 49 | 50 | 51 | 52 | 53 | 54 | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | 75 | 76 | 77 | 78 | 79 | 80 |
| | | | | | | | | | | 0 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| M | | | | | | M | | | | M | | | O | | | | | O | M | | O | | | | | | O | O | | M | | | | | O | | | |

| CC | FIELD NAME | FIELD LEGEND |
|---|---|---|
| 1 - 2 | RECORD IDENTIFIER | Y1 |
| 3 | NRFC CODE | 1, 2, 3, 5, 6, 7, 8, 9, *, E, F, H, L, M, P, S, T, V, W or X |
| 4 | CALENDER MONTH | 1-9, A, B OR C |
| 11 - 12 | REGISTER NUMBER | |
| 13 - 14 | REGISTER MONTH | |
| 38 - 39 | ACCOUNTING CLASSIFICATION REFERENCE NUMBER | |
| 40 | DEPARTMENT OF DEFENSE CODE | 4 |
| 59 | SUBALLOTMENT | |
| 60 - 61 | TRANSACTION TYPE CODE | |
| 69 - 70 | DATE PROCESSED | |
| 71 - 75 | PUBLIC VOUCHER NUMBER | |
| 76 - 79 | DISBURSING OFFICE SYMBOL NUMBER | |

KEY
M = MANDATORY
O = OPTIONAL/ CONDITIONAL

* U.S. GOVERNMENT PRINTING OFFICE 1979 - 603 076/3990 2-1

## Y2 FMS EXPENDITURE INPUT FORM

4ND NAVILCO 5230/703(REV. 10-78)(E20)

| TO | FROM | DATE |
|---|---|---|
| ASOADPS BLDG 2A | | |

| REC ID | NRFC | CALMO | SERIAL NUMBER | DATE PAID DATE | COST CODE: JULIAN DATE | COST CODE: REON SERIAL NUMBER | COST CODE: SUF | COST CODE: CASE | REPORTING OFFICE | TYPE | SUBT | TRANSPORTATION REQUEST NO | YEAR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 2 | 3 | 4 | 5 6 7 8 | 9 10 | 11 12 13 14 | 15 16 17 18 | 19 | 20 21 22 | 23 24 25 26 27 28 | 29 | 30 | 31 32 33 34 35 36 37 38 | 39 40 |
| Y 2 | | | | | | | | | | | | | |
| M | M | M | M | M | O | | | | O | O | O | O | O |

| BLANK | EXPENDITURE LIMIT CONTROL NO. | DISCOUNT AMOUNT | +/- | NET AMOUNT | +/- |
|---|---|---|---|---|---|
| 41 42 43 44 45 46 47 48 49 50 51 52 53 | 54 55 56 57 58 59 60 | 61 62 63 64 65 66 67 68 | 69 | 70 71 72 73 74 75 76 77 78 79 | 80 |
| | | | | | |
| | O | O | O | M | M |

KEY
M - MANDATORY
O - OPTIONAL
CONDITIONAL

| CC | FIELD NAME | FIELD LEGEND |
|---|---|---|
| 1-2 | DOCUMENT IDENTIFIER | Y2 |
| 3 | NRFC CODE | 1, 3, 5, 6, 7, 8, 9 OR A |
| 4 | CALENDER MONTH | 1-9, A, B OR C |
| 19 | REQUISITION SUFFIX CODE | |
| 29 | TYPE OF PAYMENT CODE | |
| 30 | SUBTRANSACTION TYPE CODE | |
| 31-38 | TRANSPORTATION REQUEST NUMBER | IF T O IS PRESENT IN CC 29-30 OF Y1, MAKE ENTRY. |
| 39-40 | YEAR | USE ONLY IF YEAR OF INPUT IS NOT CURRENT YEAR |
| 69 | SYMBOL | AMPERSAND (&) IF DEBIT; "-" IF CREDIT |
| 80 | SYMBOL | AMPERSAND (&) IF DEBIT; "-" IF CREDIT |

**Z SUMMARY INPUT FORM**
**4ND NAVILCO 5230/705 (REV. 10-78) (E2Ø)**

| TO | FROM | DATA |
|---|---|---|
| ASO ADPS BLDG. 2A | | |

| DOC IDENT | NAFC | CMO | BLANK | DATE PD | BLNK | REG MO | AAA | NAVILCO BATCH INFORMATION | JULIAN DATE OF NAVILCO BATCH | BATCH NO. | BLNK |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 2 | 3 | 4 | 5 6 7 8 | 9 10 | 11 12 | 13 14 | 15 16 17 18 19 20 | 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 | 36 37 38 39 40 | 41 42 | 43 44 |
| Z | | | | | | | Ø 6 5 9 1 6 | | | | |
| M | M | M | | M | | M | M | O | O | O | |

| BLANK | REIN | ITEM COUNT | DISCOUNT AMT | &/- | NET AMOUNT | &/- |
|---|---|---|---|---|---|---|
| 45 46 47 48 49 50 51 52 53 54 55 | 56 | 57 58 59 60 | 61 62 63 64 65 66 67 68 | 69 | 70 71 72 73 74 75 76 77 78 79 | 80 |
| | | | | | | |
| | O | M | O | O | M | M |

KEY
M = MANDATORY
O = OPTIONAL/ CONDITIONAL

| CC | DESCRIPTION |
|---|---|
| 1-2 | DOCUMENT IDENTIFIER "Z" |
| 3 | NAFC CODE 1, 2, 3, 5, 6, 7, 8, 9, *, E, F, H, L, M, P, S, T, V, W OR X |
| 4 | CALENDAR MONTH |
| 5-8 | BLANK |
| 9-10 | DATE PAID |
| 11-12 | BLANK |
| 13-14 | REGISTER MONTH |
| 15-20 | AUTHORIZATION ACCOUNTING ACTIVITY |
| 21-35 | NAVILCO BATCH INFORMATION |
| 36-40 | JULIAN DATE OF NAVILCO BATCH |

| CC | DESCRIPTION |
|---|---|
| 41-42 | NAVILCO BATCH NUMBER |
| 43-55 | BLANK |
| 56 | REINPUT CODE Y OR BLANK |
| 57-60 | ITEM COUNT |
| 61-68 | DISCOUNT AMOUNT |
| 69 | SIGN OF DISCOUNT AMOUNT "&" IF POSITIVE, "-" IF NEGATIVE |
| 70-79 | NET AMOUNT |
| 80 | SIGN OF NET AMOUNT "&" IF POSITIVE, "-" IF NEGATIVE |

## APPENDIX C

## SURVEY OF ERRORS ON Y1 AND Y2 CARDS

Monthly Summaries for the fourth quarter FY 1979.

A. July 1979

| Finance Center | Y1/Y2 Received | Fields Screened | Fields Requiring Correction | Error Rate |
|---|---|---|---|---|
| Washington | 399 | 1,197 | 331 | 28% |
| Norfolk | 3,451 | 10,353 | 1,067 | 10% |
| Great Lakes | 2,050 | 6,150 | 256 | 4% |
| San Francisco | 120 | 360 | 52 | 14% |
| San Diego | 679 | 2,037 | 343 | 17% |
| Total | 6,699 | 20,097 | 2,049 | 10% |

B. August 1979

| | | | | |
|---|---|---|---|---|
| Washington | 491 | 1,473 | 342 | 23% |
| Norfolk | 5,190 | 15,570 | 1,457 | 9% |
| Great Lakes | 3,265 | 9,795 | 262 | 3% |
| San Francisco | 159 | 477 | 109 | 23% |
| San Diego | 827 | 2,481 | 302 | 12% |
| Total | 9,932 | 29,796 | 2,472 | 8% |

C. September 1979

| | | | | |
|---|---|---|---|---|
| Washington | 282 | 846 | 183 | 22% |
| Norfolk | 7,302 | 21,906 | 3,551 | 16% |
| Great Lakes | 2,640 | 7,920 | 173 | 2% |
| San Francisco | 184 | 532 | 53 | 10% |
| San Diego | 1,549 | 4,647 | 895 | 19% |
| Total | 11,957 | 35,871 | 4,855 | 14% |

APPENDIX C (continued)

TYPE OF ERRORS

| Type of Error | Total per Month July | Aug. | Sep. | TOTAL | Per Cent |
|---|---|---|---|---|---|
| 1. Missing Y1 and Y2* | 0 | 0 | 0 | 0 | |
| 2. Std Document No. incorrect* | 368 | 491 | 3094 | 3953 | 42 |
| 3. Std Document No. blank* | 123 | 123 | 120 | 366 | 4 |
| 4. PAA incorrect | 340 | 411 | 480 | 1231 | 13 |
| 5. PAA blank | 274 | 276 | 197 | 747 | 8 |
| 6. Case code incorrect* | 159 | 230 | 410 | 799 | 8 |
| 7. Case code blank* | 356 | 406 | 141 | 903 | 10 |
| 8. Requisition No. incorrect | 323 | 393 | 309 | 1025 | 11 |
| 9. Requisition No. blank | 106 | 142 | 104 | 352 | 4 |
| TOTAL ERRORS | 2049 | 2472 | 4855 | 9376 | 100 |

*causes document to be suspended as a case level exception

## FOOTNOTES

[1]William H. Cullen, How to Conduct Foreign Military Sales: The '78 - '79 United States Guide (American Defense Preparedness Association, 1979), p. I-1.

[2]Security Assistance Accounting Center, Fact Sheet, 1979. (Typewritten.).

[3]U. S. Congressional Presentation, Security Assistance Programs, FY 80, p. 27. (Typewritten.)

[4]General Accounting Office, The Defense Department's System of Accounting for the Value of Foreign Military Sales Needs Improvement, FGMSD-79-21, 16 March 1979, p. 6.

[5]"The Case of the Misplaced $430 billion," Business Week, 24 July 1978, No. 2544, p. 155-56.

[6]Ibid.

[7]U. S. Congress, House, Report of the Committee on Appropriations, Department of Defense Appropriation Bill, 1980, 96th Cong., 1st sess., 20 September 1979, p. 217.

[8]General Accounting Office, Correct Balance of the Navy's Foreign Military Sales Trust Fund Unknown, FGMSD-79-2, 15 November 1978, p. 8.

[9]Thomas Stern, "Department Discusses Policy on Sales of U. S. Military Articles and Services," Department of State Bulletin, (July 1975), p. 101.

[10]Cullin, p. II-1.

[11]William L. Vincent, The U. S. Navy Foreign Military Sales Program, Study Project, Defense Systems Management College, Fort Belvoir, Virginia, 1975, p. I-2.

[12]Ibid, p. I-2.

[13]Cullin, p. II-2.

[14]Vincent, p. I-2.

[15]General Accounting Office, Correct Balance of the Navy's Foreign Military Sales Trust Fund Unknown, p. 6.

[16]Cullin, p. VII-2.

[17]Assistant Secretary of Defense (Comptroller), "Financial Management of the Foreign Military Sales Program," Memorandum for Secretaries of the Military Departments and Directors of the Defense Agencies, 17 June 1977, p. 2.

[18]General Accounting Office, Centralization: Best Long-Range Solution to Financial Management Problems of the Foreign Military Sales Program, FGMSD-79-33, 17 May 1979, p. 8.

[19]Telephone conversation with Steve R. Gulliford, Navy International Logistics Control Office, Philadelphia, PA, 6 November 1979.

[20]Assistant Secretary of Navy (Financial Management), Memorandum for Deputy Assistant Secretary of Defense (Management Systems), 5 January 1979.

[21]Chief of Naval Operations, "Security Assistance Program Management Goals for Fiscal Year 1980," CNO message 2571100 September 1979.

[22]David A. Ringberg, "Navy Foreign Military Sales Expenditure Float," Point Paper presented at Naval Supply Systems Command, September 1979, p. 1.

[23]Ibid, p. 1.

[24]Ibid, attachment A.

[25]Interview with Steve R. Gulliford, Navy Regional Finance Center, Oakland, CA, 31 October 1979.

[26]Ringberg, enclosure (2).

[27]Ibid, attachment A to enclosure (2).

[28]Telephone interview with Jerry H. Schmidt, NAVILCO, Philadelphia, Pennsylvania, 9 November 1979.

[29]Steve R. Guilliford, "Y1, Y2 Processing Statistics For September 1978," Memorandum for the record 13/SG:mc/206 dated 17 October 1979, NAVICLO, Philadelphia, PA.

[30]Telephone interview with Steve R. Gulliford, NAVILCO, Philadelphia, PA, 6 November 1979.

[31]Naval Supply System Command Memorandum 014/HMP/4980.8 to VADM Lascara, Subject: Reconciliation of Foreign Military Sales (FMS) Expenditures, 6 December 1978.

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U. S. Congress, Arms Export Control Act, Public Law 94-329, 94th Cong., 1976, H. R. 13680.

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